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SUPPLEMENTAL APPROPRIATIONS REQUEST—FISCAL YEAR 1990

HEARING

BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS
SECOND SESSION

SPECIAL HEARING

Printed for the use of the Committee on Appropriations

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SUPPLEMENTAL APPROPRIATIONS REQUEST—FISCAL YEAR 1990

TUESDAY, MARCH 20, 1990

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN OPERATIONS,
EXPORT FINANCING, AND RELATED PROGRAMS,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:24 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, Lautenberg, Kasten, D'Amato, and Specter.

DEPARTMENT OF STATE

STATEMENT OF HON. LAWRENCE S. EAGLEBURGER, DEPUTY SECRETARY OF STATE

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. JOHN E. ROBSON, DEPUTY SECRETARY OF THE TREASURY

OPENING STATEMENT OF HON. PATRICK J. LEAHY

Senator LEAHY. Good morning, Secretary Eagleburger and Secretary Robson. We are pleased to have you here. Senator Kasten and I were just with Secretary Eagleburger at a meeting at the White House on this same subject.

I apologize for being a few minutes late. We drove according to the speed limit in Vermont so we got caught in the traffic. They have had a quarter of an inch of snow in Washington today, so that slows things up.

The hearing today is on the President's request for $800 million in aid for Panama and Nicaragua and $70 million for refugees, and I wanted to put in perspective what we are being asked to do here for Panama and Nicaragua. In early February, at the President's request, Congress approved nearly $500 million in emergency aid for Panama, and Republicans and Democrats joined together to move that quickly through the Congress.

Now with this new request, total aid to Panama this year would exceed $1 billion, for a country of about 2½ million people. For Nicaragua, with 3½ million people, you have asked for $300 million this year. A budget amendment will be submitted for another $200 million next year.

Now that is over $1.5 billion in aid to some 6 million people in two countries of slight economic, security and foreign policy importance to United States national interests. In the meantime, last year the administration requested $50 million to help Poland and Hungary in their historic transition to democracy. Pressured by Congress, the administration added another $200 million, and Congress brought that up to about $293 million.

Since then, four more Eastern European nations have joined Poland and Hungary in throwing off communism and turning toward democracy and free enterprise. For the six emerging democracies of Eastern Europe, with over 120 million people, the President requested a total of $300 million for fiscal 1991, about $7 million more for Poland and Hungary than last year.

So what we have here on the one hand is $1.7 billion over 2 years for 6 million people in two impoverished countries in Central America. On the other hand, you want $600 million over 2 years for 120 million people in six Eastern European nations with enormous economic potential for American trade and investment.

Now, I have no question in my mind which area is more important to American foreign policy, security and economic interests. I believe it is Eastern Europe. The central issues which have divided East and West for over a generation are being decided, where we have done everything from the Marshall plan to investing hundreds of billions, even trillions of dollars in NATO, to help bring about democracy.

But from this supplemental request, I think the average American would think Panama and Nicaragua, legacies of failed American policies in Central America, are far more critical to overall American national interests than the dissolution of communism and the Soviet military threat in Eastern Europe, and I think the administration's priorities are wrong.

Now, I support aid to Panama. I was there just last month. I had a chance to see the problems for myself. We had a responsibility to get rid of Noriega. We now have to help Panama get back on its feet. I do not question that.

I also support aid to Nicaragua. After nearly a decade of trying to destroy that country and its economy through the Contra war, economic sanctions, and every other kind of pressure we could think of, we do have a moral obligation to help the Nicaraguan people pick up the pieces.

But $800 million to these two countries on top of one-half billion dollars in emergency aid approved just last month is too much money. I do not see how these two crippled economies can effectively absorb such a massive infusion of aid in so short a time. Nor do I see how either government, both of which are trying to rebuild shattered institutions and infrastructures, can efficiently manage hundreds of millions of dollars without enormous waste and abuse.

Let me give you an example. There is no part of this proposal that seems more silly and wasteful than the plan to clear up Panama's back debts to the multilateral development banks [MDB's]. First, I think it is wrong to waive the Brooke amendment, which requires Panama to pay its back debts to the United States before it can get any more money from us. They no longer have to do that.

If we are going to use the American taxpayers' money to help Panama pay its debts to the multilateral development banks, we should at least try to get it to pay off the $25 million it owes us first.

Now, on the MDB arrears. Here are the numbers I have. First, Panama owes $550 million in arrears. It owes $265 million in new payments this year, for a total due to the MDB's in 1990 of $805 million.

To pay off the arrears, Panama is to use $130 million of the $200 million in its assets we are still holding. Plus you want Congress to appropriate $130 million to give Panama to pay to the international development banks. And then we have to go to Japan and Western Europe and beg them to contribute another $130 million. Then Secretary Brady has to loan Panama $150 million to pay the World Bank, which then loans Panama back $150 million to repay Secretary Brady.

This sounds a little bit like Abbott and Costello's "Who is on first?"

You can see my concern, because after paying out over $800 million this year, Panama would get less than $400 million in loans from the banks. In other words, Panama would end up paying out $400 million more than it gets, and I understand the flows from the MDB's may be negative next year.

So I may ask you, at some point, to explain why this is not quite as crazy as it sounds. I would like to discuss whether it would not make a lot more sense to help Panama keep from falling further behind in its debt payments, but postpone for a couple of years paying off the arrears, let it get its economic house in order.

Now, Mr. Secretary, as I said, you, Bob Kasten, Senator Hatfield, and I were meeting with the President this morning, along with the two leaders of the Senate. And as I said to the President this morning, both during and after the meeting, I want to work with him and with you and with Secretary Baker on a reasonable aid program for Panama and Nicaragua.

I want a bipartisan policy for Central America. We need it if we are going to help build enduring democracies and functioning economies there, especially when we see the possibility of changes even in such places as Cuba.

One last word, and I do want to yield to my friend from Wisconsin, but a word about refugees. I think your request is about $50 million short; $70 million is requested, all for admissions. I support funding the 114,000 refugees President Bush has decided to admit.

My information is that you have cut 1990 contributions to the international refugee relief agencies by more than $50 million as compared with 1989. If that is so, then the result is a drastic cutback in food, medicine, shelter, clothing to over 15 million refugees who are living in squalid camps in Asia, Africa, and the Middle East.

So we want to hear what is going to happen there.

We are going to do our best to move this through, but, as Senator Mitchell pointed out, we also have the clean air bill to finish. But I can assure you that this committee will move as quickly as possible. I think the attendance you see this morning shows how interested we are.

I yield to Senator Kasten.

STATEMENT OF SENATOR ROBERT W. KASTEN, JR.

Senator **Kasten**. Mr. Chairman, thank you.

I would first like to welcome Secretary Eagleburger and Secretary Robson.

We have seen elections in Panama. We have seen elections in Nicaragua. We have witnessed a choice made by both countries, and I think it is important that we now work for a meaningful program of economic assistance to both of these crippled economies.

Because this is the first supplemental this year, this piece of legislation becomes the focal point of a number of other kinds of issues and a forum for differences of opinion between the administration and the legislative branch.

Hopefully, we can cut out some of the underbrush with regard to deferrals and offsets, and focus on helping these two struggling democracies, who have just chosen to vote for freedom.

I hope that this morning both the Secretaries will be able to justify these requests, and I hope that we can move forward quickly in a bipartisan manner.

Thank you, Mr. Chairman.

Senator **Leahy**. Thank you, Senator Kasten.

In the order of arrival, we have Senator D'Amato, then Senator Lautenberg, then Senator DeConcini, then Senator Specter.

Senator D'Amato.

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Senator **D'Amato**. Thank you, Mr. Chairman. Mr. Chairman, I am going to be brief.

I think that the United States has an obligation to offer Nicaragua and Panama assistance, given the choices they have just made for democracy, and that these regions are vital to the United States, notwithstanding the limited size and population of each.

Their impoverishment and infrastructure needs go well beyond that faced in other areas of the world.

Having said that, I do not believe, Mr. Chairman, that this should be a choice of either-or, either aid to Eastern Europe or aid to Central America. Indeed, I know that in the fullness of time we will be providing the kinds of aid that make sense economically, the kind of aid that will challenge emerging democracies to continue to move toward the free entrepreneurial system that we can support.

But right now there is a very real calling upon this country to match its rhetoric with deeds.

The facts are that many people, Panamanians and others, will be looking to see whether or not we match the rhetoric with deeds. The help is absolutely essential. If we fail in this, then I think there will be others who will not be willing to put their faith and trust in the fact that the United States has a special obligation as a world leader to bolster democracy.

They do not speak of Japan, they do not speak of West Germany, notwithstanding their so-called economic miracle. The peoples of the world look to the United States. This is our backyard and it is strategically important.

I do not mean to diminish what the chairman raises as to the expectations and the needs in Eastern Europe. They are real and we will have to deal with those with the limited resources that we have.

We now have an opportunity in Panama and Nicaragua, where people have voted for Mrs. Chamorro and the administration's support of her is critical, and we have got to step up and maybe make some difficult choices as to our inability to fund everything that we would like to.

I think in the instances of Panama and Nicaragua that need has been manifested. We have talked about assistance and now we have got to do more than talk about it. Now comes the time for us to come up to the plate.

And if everybody is going to be piggy about this and everybody is going to look to get a little piece of the lard, why, then this will be a debacle that will not inure to the credit of the Congress. I am suggesting that both the administration and the Congress see a way to work this out without everybody making this their favorite train.

I have used the process before to meet legitimate constituent needs. Some would say maybe they are not so legitimate. But I think as it relates to what we are talking about today and the promises that we have made to these people who have laid their lives on the line for democracy, we had better keep that promise.

Thank you, Mr. Chairman.

Senator LEAHY. The Senator from New York was not suggesting in his earlier statements on fasting, we are not sending foreign aid with a health label on it, are we, like stop smoking?

Senator D'AMATO. Well, you know something. My dear colleague from the other side of the aisle and the other side of the river, I think he might move in that area, and if he were to do that I would join with him.

Senator LEAHY. I think we have enough problems with the foreign aid bill as it is.

Senator Lautenberg.

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Welcome to the health clinic here this morning, Mr. Secretary. We have nagged you enough. I have nagged you enough, and unless you ride in a government airplane you are going to have trouble flying, unless you go to Hawaii or Alaska, for more than six hours. Even there, the options narrow.

Just very briefly, Mr. Chairman, I obviously support, though I have some concern about the sums, the administration's interest in following up on its initial declaration, and that is that Panama, who suffered mightily under the invasion that was made to get our hands on the leader down there, who was promoting, as we believe it, drugs being smuggled into our country, to support the overturn of a regime that had been voted out by popular election—that was a major commitment, and as a consequence of that I think we have an obligation to come ahead, to go ahead and help those people recover from that pain and the damage that was done, to also let them know that their big brother, their friend to the North, is interested in putting its money where its mouth is, that we believe that this democratization ought to take place and that we want to give them assistance.

My concern—and I feel similarly about Nicaragua. My concern—and we will have a chance to air that later, Mr. Secretary—is whether or not we are going to adequately involve ourselves in Eastern Europe, whether we are going to stay ahead of the crowd there, whether we are going to take the chance to use a dividend that comes from the peace that we hope will come, and whether or not we are going to be coming here again with a supplement in the near future.

I just returned from the Soviet Union and it is going to be obvious, it is obvious to all right now, that help there is desperately needed, and I hope that we will not forego that option when we fulfil our obligation to our neighbors to the South.

So Mr. Chairman, I commend you for holding this hearing, and I commend the administration for coming forward and saying that when there is a crisis they are prepared to ask for the funds to deal with it and we will help find a source for those funds.

Senator LAUTENBERG. Mr. Secretary, I am delighted you are here. I might just note in beginning, I have a great deal of personal respect for you, Secretary Baker, and for President Bush. I think all three of you have worked very hard to try to find some bipartisan consensus in this area of foreign aid, and I will pledge on my part to work as closely with you as I can.

I think that all three of you have been forthcoming and have worked with the Congress in that regard, and it is appreciated.

So the floor is yours.

STATEMENT OF HON. LAWRENCE S. EAGLEBURGER

Mr. EAGLEBURGER. Mr. Chairman, thank you very much for the opportunity to be here today.

I should also personally thank the members of the committee for their concern over my health. It is a concern which I hope will carry out throughout the questioning that goes on today. [Laughter.]

Mr. Chairman, I have a statement here which is its usual eloquent and compelling self, but I will try to cut it down, given the lateness of the hour at which we have started.

As you know, Mr. Chairman, we have not been timid in our request to the Congress, neither in its size nor in the speed with which we have asked Congress to enact that request. But let us not forget that we, the administration, and the Congress, were not timid in our calls for the removal of General Noriega.

Nor was President Endara faint-hearted in his challenge to General Noriega in the presidential elections last year. Nor were the American men and women who participated in Operation Just Cause timid.

We were not timid, Mr. Chairman, in our calls for free and fair elections in Nicaragua. Nor was President-elect Chamorro timid in her efforts to defeat the oppressive Sandinista government. And no, Mr. Chairman, the Contras were not timid either in their long, hard fight against communism.

Nor were we timid over those many years in our calls upon the Soviet Union to allow for the free migration of those wishing to leave that country in the hope of starting new and better lives.

In each of these cases, we may not always have agreed on strategy and tactics. But we, the administration and the Congress, always had the same basic objectives. We made our speeches, we pounded the table, we demanded that the international community support our cause. Get rid of Noriega, we said. Replace Ortega. Allow for the free movement of people from the Soviet Union to the country of their choice.

Well, Mr. Chairman, we won. We got what we wanted, and now we are going to see if we have what it takes to sustain what we helped to start. We may be about to learn that winning was the easy part.

We cannot let those hard-fought victories slip through our fingers. We have congratulated ourselves long enough. We must now provide the funds necessary to ensure that these victories are not hollow and short-lived, and we must do it soon.

I have with me justification documents for the Panama and Nicaragua problems. Although you may have already received these documents, I would like to insert them now in the record as the formal justification for the $500 million Panama program and the $300 million Nicaragua program.

[The information follows:]

FACT SHEET

PANAMA ECONOMIC ASSISTANCE

DESCRIPTION OF THE FY-1990 SUPPLEMENTAL - $500 MILLION

PRIVATE SECTOR REVITALIZATION CREDIT $185 million

o The President's economic assistance proposal would help "jump-start" the Panamanian private sector which is the engine of economic growth and job creation. One of the major results of such growth would be to put thousands of Panamanians back to work at all levels of the economy.

o Urban unemployment is estimated to be 34%. Since mid-1987 output declined sharply in all economic sectors. Over the same period real GDP declined by about 27.5%, according to the GOP.

o Approximately $1.4 billion of saving and time deposits remain subject to withdrawal restrictions. The deposit run in 1987 and 1988 resulted in a shrinkage of both domestic deposits and domestic bank lending. While stabilized, the banking system remains far less liquid than had been customary.

o Panamanian banks are individually working to improve their position in anticipation of a lifting of deposit restrictions, now scheduled to be eliminated effective June 30, 1990. These actions include accumulating cash reserves, negotiating extended terms with major depositors, and bilateral arrangements to refinance portions of loan portfolios. These prudent moves inhibit banks' ability to resume lending.

o A major injection of resources is required to recharge the depressed economy and meet the needs for investment, intermediate goods and working capital so that firms can rehire workers. An indication of the extent of Panama's financial needs is demonstrated by the following facts:

--Domestic investment in 1989 declined to $470 million from over $800 million in previous years.
--Imports declined to $822 million in 1989 from nearly $1 billion in previous years.

o There now are preliminary signs that business activity is picking up, but private sector revitalization requires a combination of factors including sound GOP policies to attract investment and an efficient financial sector and resources to put the Panamanian private sector back in business.

o Credits to the private sector would be policy-based and keyed to financial, regulatory and trade reforms. The activity would aim at economic growth and, thus, employment generation through a sounder financial sector and support for the revived private sector.

o The USG would transfer $185 million as a grant. We currently are discussing with the GOP the mechanics and technical details of how the funds would be lent through the banking system to the private commercial sector.

o One idea under consideration would be distributing the funds through either a consortium of banks or a government institution to the private sector. Money would be lent on commercial terms to the borrower with criteria based on economic efficiency, job creation potential and economic development policy considerations.

o Loan proceeds would return to the central government for other development priorities.

o The GOP is especially sensitive to the needs of Panamanian businesses that were looted. Estimation of losses from looting begin at $200 million.

o Because credits would be extended to business applicants on the basis of economic criteria, we can not predict the sectoral distribution with precision. Currently, we expect that the $185 million would be lent to the following high priority sectors of the economy, but this list is illustrative and amounts actually lent to each sector will undoubtedly diverge somewhat from these preliminary estimates.

--Construction: approximately $45 million for revitalizing construction activity, which was at a standstill during the past years of the economic crisis. Unemployment in this sector was over 90 percent and a dearth of low-income housing exists.

--Manufacturing: approximately $50 million for Panama's important light manufacturing firms. Because of the past two years of economic crisis, firms desperately need to replace plant and equipment and to restock inventories and spare parts.

--Tourism: an estimated $30 million to develop the potential for tourism and related services which could be a major contributor to economic growth.

--Commerce: approximately $35 million targeted for rebuilding the commercial sector which was devastated by looting and two years of economic crisis. This would build on our immediate assistance package for small business rehabilitation which the Congress approved in February.

--Agriculture: about $25 million for revitalizing this important sector, which has been hamstrung by lack of credit availability during the economic crisis. Funds would be available for machinery, seeds, fertilizers and storage facilities.

PUBLIC INVESTMENT PROGRAM $140 MILLION

o Noriega's regime reduced public investment from $211 million in 1987 to only $78 million in 1989. The country's infrastructure is in serious disrepair with crumbling roads and deteriorating ports, neglected schools and hospitals and a continuing critical need for medical supplies in government hospitals.

o Assistance would be nonrecurring, fast disbursing and policy based, meaning that we would insist on sound fiscal policies in return for this investment budget support.

o The program would be administered by the GOP largely through contracts with private firms. This program would generate numerous private sector jobs, thus alleviating unemployment.

o In close consultation with the GOP, we are looking at a number of ideas, but the most pressing needs appear to be in the following areas. Amounts and sectors listed are illustrative only, since the GOP has not made final budget and policy decisions. Flexibility will be essential.

--Health/Sanitation: In recent years, the Noriega regime made no funds available to construct or repair hospitals and clinics serving Panama's urban and rural population. Rural areas and some urban areas have minimal water and sewage systems in desperate need of rehabilitation (approximately $35 million).

--Education: Until recent years Panama had been a leader in Latin America investment in this sector. The new government must now construct schools, rehabilitate existing facilities and fund procurement of books and other supplies (approximately $20 million).

--Agriculture: While the new government dismantles the State monopolies, it also must finance infrastructure in agriculture such as repair and rehabilitation of irrigation systems, rural roads and storage facilities (approximately $20 million).

--Electric Grid: To overcome years of neglect, the country's unreliable power system will need repairs and procurement of spare parts. A refurbished electricity grid is indispensible to sustained economic growth. (approximately $20 million)

--Basic Transportation/Communications: An estimated 70 percent of Panama's highways require substantial repairs. The disrepair of ports and facilities will hamper growth of commerce. For economic growth, the GOP must rehabilitate basic telecommunication systems. (approximately $45 million)

ASSISTANCE IN PANAMA'S CLEARANCE OF ARREARS WITH THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFIS) $130 MILLION

o At the request of the Panamanian authorities, the USG has agreed to lead an effort to form an international support group to help clear Panama's arrears and to provide resources to assist the country's economic adjustment efforts. The aggregate arrears to the three IFIs which were $540 at the end of 1989 would be cleared on a proportional basis in a U.S.-chaired support group.

o $130 million of the supplemental would be a U.S. contribution toward the work of the support group. Panama has agreed to make available $130 million from its blocked accounts. Other friendly donor countries would contribute $130 millions.

o The total of $390 million generated in this process would be complemented in the final stages of the support group's work by a U.S. Treasury bridge loan of approximately $150 million linked to resumed IFI disbursements.

o The arrears clearing process will require several months of close international cooperation with other donor countries and close work with the IFIs.

o A successful outcome would also require the GOP to remain current throughout 1990 on its monthly service costs, averaging over $20 million, on its existing IFI loans.

o With a track record of servicing these costs, the IMF would be prepared to develop a "shadow program" with Panama prior to the clearing of arrears. With such a program, Panama would be able to reschedule its official bilateral debt through the Paris Club, possibly by mid-year.

o Once the arrears are cleared, the way would be open for a resumption of substantial lending from the IFIs.

PUBLIC SECTOR RESTRUCTURING AND DEVELOPMENT $45 MILLION

o Noriega's regime left the public sector in a shambles, riddled with corruption, bloated payrolls and plagued by political cronies throughout the bureaucracy.

o Aid would be provided for public sector reform and restructuring to modernize, privatize and decentralize governmental structures. Our goal is to help the Panamanians establish honest and effective governmental institutions.

o Final allocations among activities would be determined through discussions with the government of Panama as its priorities are firmly established. Some of the priority programs which we are designing are:

--Technical assistance for public financial management, fiscal policy, budget planning, tariff reform, and privatization. ($6 million)

--Administration of justice and democratic initiatives, including building a professional police force; anti-narcotics assistance to the police force; support for strengthening the judiciary and the courts; legislative training; and electoral tribunal assistance. ($20 million)

--Environmental protection and natural resources management assistance, with emphasis on the vital Panama Canal watershed; preservation of the tropical rain forest and diversification of the biosystem. ($10 million)

--U.S. scholarships for disadvantaged Panamanian youth under the Central American Peace Scholarship Program. ($4 million).

--Export and investment promotion project for non-traditional products, including services, where Panama has a comparative advantage. ($5 million).

FY 90 Supplemental

U.S. ASSISTANCE FOR PANAMA*
(Millions of U.S. Dollars)

Private Sector Revitalization Credits (estimated sectoral distribution of funds, actual distribution will depend on commercial viability of loan proposals)		185
Construction	45	
Manufacturing	50	
Tourism	30	
Commerce	35	
Agriculture	25	

Public Sector Investment Program		140
Health/Sanitation	35	
Education	20	
Agriculture	20	
Electric Energy	20	
Basic Transportation/Communication	45	
Assistance in Clearing IFI Arrears		130
Public Sector Restructuring and Development		45
Technical Assistance to Public Sector	6	
Administration of Justice	20	
Environmental Protection	10	
Scholarships for Disadvantaged Youth	4	
Export and Investment Promotion	5	
Total		500

*The distribution of assistance set forth in this table is explained in the foregoing paper. The numbers represents the Administration's best estimate at this time, but final outlays undoubtedly will vary somewhat from these estimates. The Administration needs flexibility to move funds to those program areas where they are needed most.

FACT SHEET

Nicaragua: A Commitment to Democracy, Reconciliation, and Reconstruction

U.S. assistance for Nicaragua's economic recovery is designed to support the Chamorro Government in its efforts to democratize, demilitarize, and develop the economy. The Administration believes that urgent economic assistance from the U.S. will be essential to achieve these objectives. The government's most urgent needs are to stabilize the economy and initiate reforms necessary to rebuild it. External assistance will be a critical factor, and a sound overall economic policy framework in Nicaragua will be essential to ensure a sustainable recovery effort.

U.S. assistance alone will not address all of Nicaragua's needs. The U.S. plan will be part of a multilateral effort, in which we anticipate other countries and the international financial institutions, particularly the IMF, will play pivotal roles. Food aid, medical supplies and equipment, and agricultural supplies will be critical to meet the basic needs of the poor. Immediate financing will also be critical to alleviate the constraints posed by massive arrears to foreign creditors.

Background

Over the past six years the Nicaraguan economy has declined steadily due to the combined effects of the economic mismanagement, civil war, the trade embargo, and a hurricane. Real GDP per capita has fallen by over 40% since 1980 to just over $300 per capita, making Nicaragua one of the poorest countries in the hemisphere. Unemployment has soared to about 30 percent. Imports are three times as large as exports and are being financed mostly through transfers from the Soviet block. Inflation rates were over 20,000 percent in 1988 and were estimated at over 1,500 percent in 1989. A significant part of the productive apparatus is in the hands of the state and absorbs well over 80 percent of new credit oriented to the productive sector. The public external debt of 7.3 billion dollars represents 2.5 times GDP.

The Response

The President has announced a small immediate action program which can be carried out without legislative action. Work has begun to ensure that the benefits of this first assistance package will be available as soon possible after the new government takes office. These limited resources will help begin the process of national reconciliation and support initial movement toward economic recovery.

The President has:

-- Lifted the economic sanctions, which removes the trade embargo.

-- Begun the steps necessary to restore Nicaragua's sugar quota, and to assist GON to become eligible for preferential treatment under the Caribbean Basin Initiative and the Generalized System of Preferences and for use of the facilities offered by Export-Import Bank and the Overseas Private Investment Corporation.

Among the elements of our economic assistance available without legislation are:

-- Funds for the repatriation of the Resistance and their families, and, for medical care under the Survival Assistance from Civilian Victims of Civil Strife in Central America Program ($8.0 million).

-- PL 480 Title II ($3 million) to be used for targeted feeding for nutritionally vulnerable groups; PL 480 Title I ($10 million) Food for Progress to offer urgently needed staple commodities and local currency to help initiate agricultural policy reforms.

-- Funds remaining from the recent election grants, to be used to support the democratic transition ($650,000).

In addition, the President will request Congressional support and prompt action on a budget amendment for an additional $200 million in FY 91 for Nicaragua, consistent with the approach we have taken this year.

The FY 1990 Supplemental funds are sought for assistance to Nicaragua in the following areas:

Restoring the productive capacity of the Nicaraguan economy — $128 million

This assistance will be used to support the efforts of the Government of Nicaragua and the private sector to restore the productive capacity of the economy. Such assistance would include funding for:

- -- Public and private sector imports of agricultural equipment, spare parts, fertilizer, and other inputs needed to restore the agriculture sector;
- -- Petroleum and oil product imports;
- -- Private sector imports of raw materials, equipment, intermediate goods and spare parts to rehabilitate existing facilities and stimulate new productive enterprise in the industrial and agricultural sectors.

Repatriation of Resistance and refugees — $47 million

This assistance will be used, directly or through international organizations, to support the demobilization process and to reintegrate Resistance, displaced Nicaraguans and Nicaraguan refugees into the national social, economic, and political life.

Economic growth and development — $75 million

These resources will assist Nicaragua to begin to meet economic growth and development needs, directly or through regional institutions, and may include support for such activities as:

- -- Programs to repair, improve, and maintain existing public infrastructure such as schools, health clinics, roads, and community facilities;
- -- Provision of medical equipment, commodities, training, and other support for the health sector;
- -- Provision of technical assistance and training in economic policy planning and public management;
- -- Activities to support the continued development of democratic institutions such as the legislature, courts, electoral institutions, the press, and labor organizations;
- -- Provision of technical assistance and training to the private sector to permit the rehabilitation and modernization of private enterprise in Nicaragua;
- -- Support for primary school education, university level scholarships and vocational training;
- -- Support for the agricultural sector through small farmer credit activities and improvement of input supply and production marketing systems.

Normalizing relations with the international financial institutions — $50 million

To assist the GON to clear arrears to the IBRD and IDB (estimated at about $234 million). These funds would be disbursed as part of a joint multilateral arrears clearing effort. U.S. support would be linked to the establishment of a sound policy framework.

U.S. ASSISTANCE PROGRAM FY 1990 - 1991

OUTLINE

		Estimated $ Amount (millions)	
A.	U.S. ECONOMIC ASSISTANCE (FY 90 SUPP)		
o	Agricultural Inputs	30	
o	Petroleum Imports	25	
o	Voluntary Demobilization and Repatriation of Resistance	32	
	Refugee Programs	15	
o	Emergency Economic Policy and Public Management Technical Assistance	1	
o	Emergency Employment Program	10	
o	Medical Assistance Package	4	
o	Arrears to International Financial Institutions	50	
o	Private Sector Imports	73	
o	Development Assistance Projects	60	$300
B.	U.S. ECONOMIC ASSISTANCE (FY 91)		
o	Balance of Payments	100	
o	Development Support	100	$200
	TOTAL ASSISTANCE PACKAGE		$500

BEGINNING RECOVERY AND RECONSTRUCTION (FY 1990 - $300 million)

PRODUCTION INPUTS: CATALYST FOR ECONOMIC RECOVERY $128 million

Agricultural Inputs ($30 million). To address the urgent needs of the first planting season, a balance of payments program to finance the importation of seed, fertilizer, agricultural chemicals, spare parts and equipment is essential. Two of the three annual planting periods take place during the remainder of FY90, the "primera" or principal season (May - June) and the "postrera" or secondary season (Aug. - Sept.). Together they represent approximately 80% of the demand for imported fertilizers (approximately 60,000 MT) and improved, hybrid seeds (rice, corn, beans, potatoes and vegetables) all currently in critically short supply. In addition, spare parts, agricultural chemicals and equipment are lacking to initiate the rehabilitation of traditional export crops such as coffee and bananas.

Petroleum Imports ($25 million). One of the greatest challenges in rebuilding the devastated economy will be the supply financing of oil and petroleum products. Nicaragua's import bill for these products which have been supplied mostly by the Soviet Union and Eastern Europe whose continued support is uncertain, was $37 million for the first half of 1989. Early indications from the Nicaraguan Transition Team are that its current supply of crude oil will be exhausted two to three weeks after the inauguration. Therefore, resources will be made immediately available for the importation of three to four months of critical petroleum products. Additional petroleum supplies would be sought from Mexico and Venezuela.

Private Sector Production Imports ($73 million). Foreign exchange will be required for the reactivation of the private sector. Resources will be made available for the importation of raw materials, equipment, intermediate goods and spare parts to rehabilitate existing facilities and stimulate new activities in both the industrial and agricultural sectors. This assistance will support the development of a policy reform agenda and the initiation of reform actions.

NORMALIZING RELATIONS WITH THE INTERNATIONAL FINANCIAL INSTITUTIONS — $50 million

Arrears to IFIs ($50 million). These funds would assist the GON to clear arrears to the IBRD and IDB, estimated at about $234 million. They would be disbursed as part of the multilateral effort. The IFIs would be expected to review and redesign lending programs in Nicaragua in order to be able to begin disbursements in a timely fashion once arrears are cleared. US arrears-clearing support would be linked to a sound policy framework supported by the IMF.

REPATRIATION AND NATIONAL RECONCILIATION — $47 million

Voluntary Demobilization and Repatriation of Resistance in Honduras ($32 million). These funds would be used to support the demobilization of approximately 60,000 Nicaraguan Resistance members and families back to civilian life ($30M). The Observer Group for Central America (ONUCA), with the consent of the UN Security Council, may have a role to play in supporting the voluntary demobilization and safe conditions in Nicaragua in accord with the Central American Peace Process ($2M).

Refugee Programs ($15 million). The U.S. contribution to refugee activities under UN auspices would be approximately $15M: $10M for approximately 60,000 Nicaraguan Registered Refugees (UNHCR) and $5M for the reintegration of a larger, yet undetermined number of repatriating displaced Nicaraguans (CIREFCA).

REESTABLISHING THE FOUNDATIONS FOR DEMOCRACY AND ECONOMIC GROWTH — $75 million

Emergency Employment ($10 million). In the spirit of national reconciliation and to address even higher unemployment levels, now estimated at 27%, as a result of the demobilization of Resistance and reduction of the Sandinista armed forces, an emergency employment program would be initiated. Jobs would be created for activities such as the repair and improvement of existing public infrastructure, rehabilitation of schools and health clinics, renovation of deteriorated community facilities and other identifiable maintenance projects.

Medical Assistance Package ($4 million). Medicines, medical health personnel, equipment, supplies and services would be provided. Medicines and supplies would cover requirements for traumatic injuries, as well as more common treatments for endemic ailments such as severe malnutrition. This package would also respond, in part, to the medical needs of those victimized by years of civil strife in Nicaragua including the Resistance, civilians and the Sandinista Army personnel.

Economic Policy Planning Public Management ($1 million). Immediate access through a grant to a qualified Central American management institution to provide economic planning and public administration expertise to assist the new GON in overall economic policy planning including privatization, public sector management and public/private sector dialogue.

Assistance will be provided in the following area based a sound economic reform plan:

Democratic Initiatives ($5 million). After a long hiatus, democracy has returned to Nicaragua. However, the institutions and processes of democracy are, weak and will require significant strengthening. This will be addressed through assistance to democratic institutions, a free press and democratic labor organizations.

Health Sector ($10 million). The health sector is confronted with an ever-increasing population (with growth in 1988 of 3.4 percent) and a shortage of foreign exchange. These funds will provide medicines, and pharmaceutical supplies and equipment currently in short supply. Particular emphasis will be given to child survival/maternal health programs which focus on nutrition, oral rehydration, and immunization.

Private Sector ($15 million). The Nicaraguan private sector has suffered from ten years of attempts to dismantle it; however a core remains and its reactivation is critical to renewed economic growth. Support will be provided to private sector associations to give private entrepreneurs access to technical expertise, new technology and investment to allow them to rehabilitate and modernize their operations.

Education Sector ($15 million). The rapid population growth, lack of budgetary resources and drain on human resources caused by the civil war have placed an enormous strain on the education system in Nicaragua. Critically needed commodities such as paper, textbooks, library materials and classroom equipment will be provided for primary schools. Scholarships will allow socially and economically disadvantaged young leaders to receive technical training in the U.S. University textbooks will be provided in technical fields, including economics, management and the physical sciences.

Agricultural Sector ($15 million). Agriculture accounts for roughly one-quarter of Nicaragua's GDP and employs more than 40 percent of the labor force. Over the past 10 years, mismanagement, lack of foreign exchange and poor economic policies have battered the agricultural sector. Resources will be used for small farmer credit, improved inputs supply and production marketing systems.

SUPPLEMENTAL REQUEST

Mr. EAGLEBURGER. I want to stress to the subcommittee, however, a very important point. These justifications spell out the program areas in which we intend to provide assistance and each area has a specific dollar figure associated with it. Nevertheless, it would be extremely harmful if these funds were to be appropriated in a way that made it impossible for us to move money between program components.

As time passes and as our plans and those of the new governments solidify, we will almost certainly find it necessary to shift funds from one area to another. We must have the flexibility, working with the Congress, to move funds to those program areas where experience and changed circumstances tell us they are needed most.

The situations in Panama and Nicaragua, although both at critical stages, are very different. Our proposals for the two therefore differ in several key respects.

In Panama, the basic economic structures are in place, but have been seriously damaged by the corruption and mismanagement of General Noriega and his minions. The purpose of our $500 million supplemental request, in conjunction with the actions we have already taken, is to help President Endara get that economic structure repaired and functioning so that Panama can once again stand on its own.

We view our request as a one-time shot in the arm, a jump-start, if you will. President Endara has a monumental task ahead of him as he works to repair the economic damage done by the Noriega regime. Since 1987, for example, manufacturing production has dropped by nearly 25 percent and construction by over 60 percent.

Over the same period, real GDP, real gross domestic product, has declined by approximately 27.5 percent. Real public and private investment flows have been cut in half since 1987. There are a whole series of figures here, Mr. Chairman, which I will not bore you with at the moment, but all of which describe the conditions of the Panamanian economy after Noriega's mismanagement.

Thanks to the quick action by the Congress in early February on the first phase of our Panama program, we are off to a good start. Under the Urgent Assistance for Democracy in Panama Act of 1990, we have been able to normalize relations with the new government and we have begun to work in a number of key program areas, such as repair of infrastructure and so forth.

Although these steps are vital to the political, psychological, and economic wellbeing of the Panamanian Government, they will not by themselves suffice. We have therefore requested $500 million in fiscal year 1990 funding to support the Panamanian Government in four key areas, each of which is described in some detail in the justification which I referred to earlier.

Rather than go through those at this point, Mr. Chairman, let me turn to Nicaragua. If the economic situation in Panama looks bad, Mr. Chairman, the situation in Nicaragua is orders of magnitude worse. The task in Nicaragua will not be one of repairing a damaged economic system and infrastructure, but rather one of building an economy from essentially the ground up.

When Mrs. Chamorro takes office on April 25, she will take over an economy that has been devastated over the past 6 years by mismanagement, civil war, the trade embargo, and a major hurricane. She will face an economy where gross domestic product has dropped 30 percent since 1980, to $1.5 billion, where spending by the central government drove the central government deficit from 8.4 percent of gross domestic product in 1978 to 60 percent in 1988. She will inherit an unemployment rate of about 30 percent, an external debt of $7.3 billion, and an economy where inflation rates have hit five-digit figures, 20,000 percent in 1988 for example.

PREPARED STATEMENT

Again, Mr. Chairman, I shall not go through the details of the program. I am sure in the discussion you will want to go into that. So I will end my statement here, simply restating again the point: We have won with regard to Panama and Nicaragua. We have won with regard to increasing the outflow of Jewish emigrants from the

Soviet Union. Under those circumstances, it seems to the administration that it is now important that we make successes permanent, and we feel that we can do this with the request that has been put to you today.

Secretary Robson may have a point or two he wishes to make.

[The statement follows:]

STATEMENT OF LAWRENCE S. EAGLEBURGER

Mr. Chairman, members of the subcommittee, I welcome this opportunity to appear before you today in support of the Administration's fiscal year 1990 supplemental appropriation request.

As you know, Mr. Chairman, we have not been timid in our request, neither in its size nor in the speed with which we have asked Congress to enact it.

But let us not forget that we -- the Administration and the Congress -- were not timid in our calls for the removal of General Noriega. Nor was President Endara fainthearted in his challenge to General Noriega in the Presidential elections last year. Nor were the American men and women who participated in Operation Just Cause timid.

We were not timid, Mr. Chairman, in our calls for free and fair elections in Nicaragua. Nor was President elect Chamorro timid in her efforts to defeat the oppressive Sandinista government. And no, Mr. Chairman, the Contras were not timid either in their long, hard fight against communism.

Nor were we timid over those many years in our calls upon the Soviet Union to allow for the free migration of those wishing to leave that country in the hope of starting new and better lives.

In each of these cases, we may not always have agreed on strategy and the tactics, but we -- the Administration and the Congress -- always had the same basic objectives. We made our speeches; we pounded the table; we demanded that the international community support our cause. Get rid of Noriega! Replace Ortega! Allow for the free movement of people from the Soviet Union to the country of their choice!

Well, Mr. Chairman, we won; we got what we wanted. And now we are going to see if we have what it takes to sustain what we helped to start. We may be about to learn that winning was the easy part.

We cannot let these hard fought victories slip through our fingers. We have congratulated ourselves long enough. We must now provide the funds necessary to insure that these victories are not hollow and short lived, and we must do it soon.

I have with me justification documents for the Panama and Nicaragua programs. Although you may have already received these documents, I would like to insert them now in the record as the formal justification for the $500 million Panama program and the $300 million Nicaragua program.

I want to stress to the subcommittee, however, a very important point. These justifications spell out the program areas in which we intend to provide assistance and each area has a specific dollar figure associated with it. Nevertheless, it would be extremely harmful if these funds were to be appropriated in a way that made it impossible for us to move money between program components. As time passes and as our plans and those of the new governments solidify, we will almost certainly find it necessary to shift funds from one area to another. We must have the flexibility, working with the Congress, to move funds to those program areas where experience and changed circumstances tell us they are needed most.

PANAMA

The situations in Panama and Nicaragua, although both at critical stages, are very different; our proposals for the two therefore differ in several key respects.

In Panama the basic economic structures are in place, but have been seriously damaged by the corruption and mismanagement of General Noriega and his minions. The purpose of our $500 million supplemental request, in conjunction with the actions we have already taken, is to help President Endara get that economic structure repaired and functioning so that Panama can once again stand on its own. We view our request as a one time shot in the arm; a "jump start," if you will.

President Endara has a monumental task ahead of him as he works to repair the economic damage done by the Noriega regime. Since 1987, for example, manufacturing production has dropped by nearly 25 percent and construction by over 60 percent.

Over the same period, real GDP has declined by approximately 27.5 percent. Real public and private investment flows have been cut in half since 1987. Unemployment is clearly one of the most critical problems, both political and economic, faced by the new government. Overall, unemployment is estimated at about 25 percent, with urban unemployment running at approximately 34 percent. For this reason, stimulating production that will create employment is one of the major objectives of our assistance program.

Hanging like a storm cloud over Panama's economic recovery are several financial problems, problems that must be addressed if Panama is to succeed.

-- Panama was $540 million in arrears to the international financial institutions at the end of 1989 and must pay another $265 million this year in order to be eligible for new IFI programs;

-- Panama's arrears to commercial banks total $433 million and an additional $400 million in payments will fall due this year;

-- Debt to official bilateral creditors is $430 million, $258 million of which is owed to the United States;

-- Panamanian imports have been depressed by an estimated half a billion dollars during the last two years, resulting n an urgent need to replenish capital equipment and inventories;

-- U.S. economic sanctions against the Noriega government also have caused damage to the business community and the economy; and finally

-- According to some estimates, looting in the wake of U.S. military action resulted in the loss of as much as $200 million to Panamanian firms.

Notwithstanding these rather depressing statistics, there is much to give us hope that our assistance, along with that of other donors and the strong leadership of President Endara and his government, will put Panama back on the road to recovery. Inflation, for example, is not a significant problem for Panama, in part because of its use of the U.S. dollar as its official currency. It has a high adult literacy rate, approximately 87 percent. And its private business community is astute, experienced and well-organized.

We are confident that Panama will make good use of our assistance and that the Panamanian economy will rebound, provided that

1. The Panamanian government establishes itself in the eyes of the Panamanian people as responsive to human needs and dedicated to the principles of democratic government;

2. financial stability, credit availability and access to international capital markets are re-established;

3. private and public investment are revived; and

4. the actions of the government of Panama, including the maintenance of public order, inspire confidence on the part of investors -- both domestic and foreign.

Mr. Chairman, President Endara intends to pursue these principles and we have designed our aid proposal to support him in his efforts.

Thanks to the quick action by the Congress in early February on the first phase of our Panama program, we are off to a good start. Under the Urgent Assistance for Democracy in Panama Act of 1990 we have been able to normalize relations with the new government and we have begun to work in a number of key program areas, such as the repair of infrastructure, housing construction, generating employment, reopening commercial opportunities, reestablishing the sugar quota and working in the very important area of administration of justice.

Although these steps are vital to the political, psychological and economic well being of the new Panamanian government, they will not, by themselves, suffice.

We have, therefore, requested $500 million in fiscal year 1990 funding to support the Panamanian government in four key areas, each of which is described in some detail in the justifications to which I referred earlier. Let me briefly describe each.

First, we propose to allocate up to $185 million for "private sector revitalization credit." This element of our proposal would help businesses to resume investment expenditures, restock inventories and put Panamanians back to work. We will work closely with the new Panamanian government to insure that use of these funds is policy-based and keyed to financial, regulatory and trade reforms. Like all of the elements of our program, the precise details of how much of this money will be devoted to which sectors of the economy will evolve over time. But we and the Panamanians cannot complete our planning and begin implementation if we do not have the resources. We expect, however, that funds will flow to the commerce, manufacturing, construction, tourism and agriculture sectors.

Second, we propose that $140 million be devoted to a "public investment program." Public investment in Panama fell from $211 million in 1987 to less than $80 million in 1989. Such a level of investment is not even enough to maintain public infrastructure assets at their current level, given replacement requirements, much less support accelerated growth. Our $140 million proposal would support investments in infrastructure in areas such as water treatment facilities, rural water and sewage projects, a number of basic facilities in the City of Colon (which has one of the highest concentrations of Panama's urban poor), transportation and electrical energy. As with the private investment portion of the program, this aspect of our proposal will help create much needed employment in several key areas of the country.

The third element of our proposal is for $130 million to assist Panama in clearing its arrears to the international financial institutions, thereby restoring vital access to multilateral credit flows. At the request of the Panamanian government, we have agreed to lead an effort to form an international support group to help clear Panama's arrears and to provide resources to assist the country's economic recovery efforts. The $540 million in Panamanian arrears to the international financial institutions would be cleared on a proportional basis.

-- the United States would contribute $130 million;

-- Panama would use $130 million of its blocked accounts; and

-- other countries would contribute an additional $130 million.

In the final stages of the support group's work, the U.S. Treasury Department would provide a bridge loan of approximately $150 million that would be linked to resumed international financial institution disbursements. Restoring Panama's access to multilateral support is an essential element to its long term prospects for economic development and growth.

I realize that there is some concern in the Congress about this element of our program and our ability to lead an effort that will clear the IFI arrears and reestablish a positive balance to the financial flows from the IFIs to Panama. Deputy Secretary Robson is prepared to speak about this in more detail. Let me just say that we and the new government of Panama are determined to meet this objective. We are working with the World Bank and the IMF; we are working with other potential donors; and we will continue to do so in the weeks and months to come. We must be successful in this effort or there is likely to be no new IFI lending; no Paris Club rescheduling; and little, if any, new commercial bank lending.

Since each of these elements is critical to rapid economic recovery in Panama, we do not intend to fail. And our $130 million contribution, Mr. Chairman, is essential to spark this effort.

The fourth, and final, element of our Panama proposal consists of $45 million for public sector restructuring and development activities. These will include programs such as

-- technical assistance for public financial management, fiscal policy, budget planning, tariff reform and privatization;

-- administration of justice, including building a professional police force, strengthening the judiciary and the courts, electoral tribunal assistance, free labor unions and press, and anti-narcotics assistance to the police force;

-- environmental protection and natural resources management assistance; and

-- scholarships for disadvantaged Panamanian youths.

NICARAGUA

If the economic situation in Panama looks bad, Mr. Chairman, the situation in Nicaragua is orders of magnitude worse. The task in Nicaragua will not be one of repairing a damaged economic system and infrastructure, but rather one of building an economy from essentially the ground up. In Panama, we are asking you for a one time infusion of the funds necessary to jump start the economy; in Nicaragua, we are asking you for the first installment on what will almost certainly be a long, costly, but absolutely necessary aid relationship. It is a relationship that will help democracy grow and solidify. If democracy should fail in Nicaragua, Mr. Chairman, the costs to us and to the region will be far greater.

When Mrs. Chamorro takes office on April 25, she will take over an economy that has been devastated over the past six years by mismanagement, civil war, the trade embargo and a major hurricane. She will face an economy where GDP has dropped 30 percent since 1980 to $1.5 billion, where spending by the central government drove the central government deficit from 8.4 percent of GDP in 1978 to 60 percent in 1988.

She will inherit an unemployment rate of about 30 percent, an external debt of $7.3 billion (2.5 times the Nicaraguan GDP), and an economy where inflation rates have hit five digit figures (20,000 percent in 1988, for example). She will govern a country that has one of the poorest populations in the hemisphere. She will have to deal with high infant mortality and illiteracy rates; she will have to revise and revive the entire productive structure -- far more concentrated in agriculture than in Panama.

Recuperation in Nicaragua will be slow, and will be dependent on several important actions by the new government, including ending hyperinflation, eliminating numerous "command economy" regulations, demobilizing the massive army, encouraging farmers to go back to the fields and replant, and finding new ways to supply agricultural inputs such as seeds and fertilizer and increase access to market opportunities.

We must be prepared to help Mrs. Chamorro and the newly elected democratic government of Nicaragua. We must demonstrate to the Nicaraguan people that we are now willing to back up our demands for democracy with the financial wherewithal to make it work. We must make clear to the Sandinistas the futility of trying to subvert Mrs. Chamorro's ability to govern. And we must, through our assistance, reverse the conditions that might otherwise encourage the Sandinistas to attempt that subversion.

It is critical that we sieze upon this opportunity to demilitarize the conflict in Nicaragua. If this can be done, the benefits for the Central American peace process, in El Salvador and throughout the region, will be immense.

The President has proposed $300 million -- to be provided as a part of the FY 1990 budget -- as the first installment on U.S. support for the Chamorro government. He has also stated his intention to send to the Congress a fiscal year 1991 budget amendment for an additional $200 million for Nicaragua.

As with Panama, the President has taken several initial steps to begin to regularize relationships with Nicaragua and to provide quick humanitarian and economic assistance where possible. For example, economic sanctions and the trade embargo have been lifted; steps are being taken to restore Nicaragua's sugar quota; plans are under way to provide some food assistance.

But like our program in Panama, these very positive first steps are far from what it will take to begin making real progress over the next several months.

Our supplemental request has been designed to move funds quickly into the highest priority areas of need. The justification I referred to earlier, Mr. Chairman, provides a detailed description of each component of our request.

I would like merely to summarize those elements for you now. Before I do so, however, I must reemphasize the point I made earlier regarding flexibility. The dollar figures associated with each program element represent our current best estimate of what it will take to begin making progress over the next few months. As Mrs. Chamorro's own plans become firmer and as her government takes shape, we need the flexibility within our program to modify and shift funds as conditions dictate.

The first element of our request includes $128 million for restoring the productive capacity of the Nicaraguan economy. We anticipate that funding will be provided for

- -- public and private sector imports of agricultural equipment, spare parts, fertilizer, and other items needed to restore the agriculture sector;
- -- petroleum and oil product imports; and
- -- private sector imports of raw materials, equipment, intermediate goods and spare parts to rehabilitate existing facilities and stimulate new productive enterprise in the industrial and agricultural sectors.

The second element, and a very important element, of our Nicaragua program request is for $47 million to help repatriate the resistance and refugees. These funds will be used either directly or through international organizations to demobilize and reintegrate the Nicaraguan resistance, displaced Nicaraguans and Nicaraguan refugees into the national, social, economic and political life of the country.

The third component of our request is targeted at economic growth and development. For this portion of our program we are seeking $75 million. These funds will assist Nicaragua in its efforts to begin to tackle long neglected economic growth and development needs, directly or through regional institutions. A broad spectrum of programs will be considered, including funding for:

- -- infrastructure repair and improvement for schools, health clinics, roads and community facilities;
- -- medical equipment, commodities, training and other support activities in the health sector;
- -- technical assistance and training in economic policy planning and public management;
- -- development of democratic institutions such as the legislature, courts, electoral institutions, the press and labor organizations;
- -- technical assistance and training for the private sector to help rehabilitate and modernize private enterprise in Nicaragua;
- -- support for primary school education, university level scholarships and vocational training; and
- -- support for the agricultural sector in areas such as small farmer credit and production marketing systems.

Finally, we are asking for $50 million to assist Nicaragua to normalize its relations with the international financial institutions. Government of Nicaragua arrears to the IBRD and IDB are estimated to be $234 million. The U.S. contribution of $50 million would be disbursed as part of a multilateral arrears clearing effort, and would be linked to the establishment of a sound economic policy framework. Restoring Nicaraguan access to multilateral financial and technical assistance will be an essential element of its long journey through structural adjustment to eventual economic recovery.

REFUGEES

I have spent most of my time this morning, Mr. Chairman, addressing the importance of moving quickly to support the dramatic changes that we have witnessed over the past several months in Central America.

There is, however, a third important component of our fiscal year 1990 supplemental request: our $70 million request for Migration and Refugee Assistance.

As with Panama and Nicaragua, our policies in the refugee area have paid off in recent years in a manner that exceeded our expectations. Our fiscal year 1990 budget included funding for 84,000 refugee admissions world wide. Because of increased refugee flows, however, particularly out of the Soviet Union, the President set the funded admissions ceiling for fiscal year 1990 at 111,000.

Our $70 million request will finance the processing, transportation and initial resettlement costs related to the increase of 27,000 refugee admissions over our original budget estimates. Of the 27,000, 24,000 are Soviets, 2,000 are in the Vietnamese Orderly Departure Program, and 1,000 are Africans. In addition to the costs directly related to the increase in the numbers of refugees to be admitted, these funds are required to provide for costs related to the care and maintenance of the expanded caseload of Soviets while in transit in Western Europe on their way to this country.

The largest portion of our request is for the increase in the number of funded Soviet admissions. Most of these Soviets will come to the United States through the Vienna/Rome pipeline. As you know, this route was cumbersome, slow and costly. Consequently, last September the Administration announced a plan to close the pipeline and move all future processing to Moscow. Based on the current rate of movements from Rome and Vienna, the pipeline will be virtually closed down by the end of summer. This will generate substantial savings within the admissions program in fiscal year 1991.

Early enactment of this supplemental request is critical if we are to avoid a disruption in refugee processing.

CONCLUSION

Mr. Chairman, the President has asked for $870 million in supplemental appropriations for three critical programs. He has instructed the Director of the Office of Management and Budget and the Secretary of Defense to negotiate acceptable offsets from the Defense Department budget in order to keep this request budget neutral. I understand that those negotiations are now under way and I hope that they will soon be successful.

The President has also asked that this supplemental package be enacted by April 5. Given the importance of what is at stake here, Mr. Chairman, I believe this timing is critical. We owe it to President Endara; we owe it to Mrs. Chamorro; we owe it to the Panamanian and Nicaraguan people who have signaled through the ballot box their desire to replace dictatorship with democracy; we owe it to the men and women of our armed forces who risked their lives in the name of democracy in Panama; we owe it to the thousands of refugees who have dreamed of starting a new life in freedom; and we owe it to all of those Executive Branch officials and Members of Congress who worked so hard over the years and made all of those speeches about giving democracy a chance.

I said in my opening remarks, Mr. Chairman, that we may be about to learn that winning is easier than assuring the permanence of our successes. The battle is not over; it has just begun. Let us move aggressively; let us move together; and let us move now.

STATEMENT OF HON. JOHN E. ROBSON

Senator **Leahy**. Mr. Secretary, did you want to add anything to that?

Mr. **Robson**. I will put my entire statement, if I may, Mr. Chairman, into the record and not burden the committee with it now. I would like to say just a couple of things.

One is when President Bush sent Larry Eagleburger and me down to Panama last January and as we have worked together more and more as there is a greater confluence between economic and political matters, I think that this teamwork between Treasury and State is something you will see more of as time goes forward and as the world is more and more turning to economic issues as being completely wedded to political ones.

Second, as Secretary Eagleburger pointed out, the situation in these two countries are very different. Panama has essentially got the residue of a private sector economy. It has no exchange rate problems, it has no inflation problems. It is a middle income country. It has a relatively high literacy rate.

What it does have is the residue of 3 years of absolute punishment under Noriega, and you might compare it to a guy who has gone on a binge. He needs some coffee and aspirin to get back on his feet, but you know he can get back on his feet.

The Nicaraguan situation is very different. There are profound and I think far-reaching problems in the economy, as Secretary Eagleburger pointed out. It is a much sicker patient. It is going to take a great deal longer to stay in there and see the kind of recovery that you want.

PREPARED STATEMENT

But I think both of these countries share one thing and that is the urgency of their need, and that is why I appreciate both your and Senator Kasten's commitment to bipartisanship and working together on these problems.

Thank you.

[The statement follows:]

STATEMENT OF JOHN E. ROBSON

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before this subcommittee to discuss our efforts to assist the newborn democracies of Panama and Nicaragua.

Congress acted quickly to approve P.L. 101-243 that reopened access to trade preferences, investment opportunities and government credits and provided $42 million in emergency assistance for Panama. I appreciate that effort. Quick approval of the first phase of emergency assistance for Panama has allowed us to begin addressing the homeless problem in El Chorillo, to assist modestly in helping businesses hurt by looting, and to provide initial technical assistance to the government.

However, while this is a good start, further assistance is required. My hope is that we can work together in a spirit of bipartisanship to assure that phase two of the Panama assistance package, along with the assistance requested for Nicaragua, becomes available in time to keep economic conditions in these countries from deteriorating further.

U.S. Objectives in Panama and Nicaragua

The President has proposed economic assistance packages for Panama and Nicaragua that reflect the differences in the economic circumstances of the two countries. As you may know, Deputy Secretary Eagleburger and I went to Panama in early January to assess the economic situation. We met with President Endara and his economic advisors, as well as with representatives of the private sector. Based on those meetings and the follow-up work of an interagency team of U.S. experts, we formulated a strategy which we believe provides the basis for sustainable, long-term economic recovery.

Our strategy is to get an appreciable sum of resources to Panama right away as a sort of "jump-start" for the economy. Panama is a middle income country that is suffering from a severe liquidity crisis in the banking system and a cash-starved public sector. Panama has the potential for rapid economic recovery if sufficient resources become available. We do not anticipate engaging in a long-term relief effort in Panama. We have put the focus on the private sector in designing an assistance program for Panama because we believe the private sector is the most reliable engine of growth and employment in the Panamanian economy. With some bridging financial help, businesses can bring idle operations back on line, creating the sustainable employment needed to reduce Panama's unemployment problem over the long run.

Public sector services also are required to support the reactivation of the economy. After years of neglect, the electric supply, road networks, water system and port services are all in desperate need of repair. Investments in health and education also are needed. U.S. assistance is designed to permit a resumption in investment spending, and to help the Endara Government implement its open-market economic policy. A sound economic policy framework will be the basis for sustainable, private-sector led growth.

Nicaragua, by contrast, is one of the poorest countries in the hemisphere. Nicaragua's per capita GDP is estimated to have fallen by over 40% since 1980 to just over $300. Real GDP decreased by 7% in 1987, 8% in 1988 and an estimated 5% in 1989. Agriculture accounts for 24% of GDP and is the mainstay of the economy. A third of the labor force is employed in agriculture and two-thirds of export earnings are derived from this sector.

This contrasts greatly with Panama, where services account for 80% of GDP.

For Nicaragua, we contemplate with the initial package proposed by the President, a development assistance effort consisting largely of traditional aid programs that could last several years. The new government's most urgent needs will be to secure seed and fertilizer for the May planting season. It also needs fuel and medicines on an urgent basis.

A critical task of Mrs. Chamorro's new government will be to stabilize the economy, control inflation, and initiate reforms necessary to rebuild it. This will be a difficult task that will require strong leadership and a commitment to economic reform. The new government of Nicaragua must overcome 10 years of devastation caused by economic mismanagement, civil war, the trade embargo, and natural disaster.

While the needs are great, we must pay attention to the absorptive capacity of the Nicaraguan economy and its ability to utilize resources effectively. Drastic public sector restructuring will be required. Last year, the government of Nicaragua's fiscal deficit was 28% of GDP. The Nicaraguan government received average annual external loan disbursements of over $500 million (18% of GDP) during 1984-1988. Even so, total external arrears to all creditors built up at about the same annual rate during this period and stood at about $2.5 billion at end-1988.

Like Panama, Nicaragua has arrears to the international financial institutions (IFIs). At end-1989, arrears to the World Bank and Inter-American Development Bank (IDB) totalled $233 million. Nicaragua does not have arrears to the IMF. However, the new government urgently needs to implement an economic reform program that could be supported by the IMF. It also needs to clear arrears to the multilateral development banks as a prerequisite to obtaining new loans from these institutions.

Update on Panama's Economic and Financial Situation

Let me return briefly to the Panamanian economy. I am optimistic about the ability of the Panamanian economy to recover. At the same time, I believe that $500 million in new resources is needed on an urgent basis.

The government of Panama is facing an immediate and severe employment crunch. Unemployment, estimated at 25%, is a major economic and political problem. In 1987, unemployment was only 12%. Urban unemployment is estimated at 34%.

Thus far, the government of Panama has not been able to ameliorate the unemployment problem. Pending completion of a budget for 1990, the government has been operating on an austere cash flow basis. Immediate needs have been attended to but the authorities have refrained from initiating new programs or dissipating their small cash balances in the absence of democratic budgetary authority. We expect the budget to be submitted to the legislature for approval early this week.

In addition to the unemployment problem, the Endara Government's inherited a financial situation that, if not addressed, could jeopardize the country's economic recovery. Arrears to the IMF, World Bank, and IDB totalled $540 million at the end of 1989. In addition, $265 million falls due to the IFIs during 1990. Imports have been depressed by an estimated $500 million during the last two years, resulting in an urgent need to rebuild inventories and replenish capital equipment. Domestic investment in 1989 declined to $470 million from annual levels of over $800 million in previous years.

The Endara Government is committed to restoring normal relations with the international financial institutions, including eliminating arrears and keeping current on payments falling due in 1990. The Panamanians believe, and we agree, that normalizing relations with the IFIs is essential to putting Panama on a sound economic and financial track. Clearing arrears will restore Panama's eligibly for expanded financial resources from three major international creditors. In addition to new lending, the restoration of normal relations with the international financial institutions will open the door for Panama to a rescheduling of official debts in the Paris Club and talks with commercial banks on an eventual financing arrangement.

President Endara has asked the United States to organize an international support group of friendly donor countries to help Panama clear its arrears to the IMF, the World Bank, and IDB so that it can become eligible again for new lending from these key institutions. Approximately $130 million of the fiscal 1990 supplemental budget request for Panama is for U.S. participation in the support group.

The Panamanians have earmarked $130 million of their funds remaining in the United States for their contribution to help clear arrears. The next step is for the government to complete its 1990 public sector budget. Payments to stay current with the IFIs are expected to come out of budgetary resources and we have been assured that servicing these payments is a high priority with the Panamanian government. An IMF team is in Panama now in anticipation of the unveiling of the budget. We expect that negotiations will begin between the government of Panama and the IMF on an economic adjustment program that would serve as the basis for the support group's efforts to mobilize resources. The budget will indicate the economic plans of the new government and will provide Panama the basis for discussions not only with the IMF, but also with the World Bank and the IDB.

We expect the IFIs, particularly the World Bank and the IDB, to begin soon to formulate their lending strategies for Panama. Much work remains to be done by the IFIs in order to have loans ready to go to their boards in the next six months or so. Our goal is for Panama to realize a net positive inflow from the IFIs for 1990; that is, that disbursements in 1990 will exceed the $265 million falling due in 1990. This calculation does not include the stock of arrears that accumulated from 1987-1989.

During the past two and a half months, we have held numerous discussions with senior management at each of the IFIs about the level and timing of their resumed disbursements. Despite the large arrears to these institutions, we wanted to begin the process of planning the reflow of financial resources to Panama. An IMF mission, the second since January, is now in Panama to begin this process. The World Bank soon will be sending its second mission to Panama. These missions will enable the IFIs to begin rebuilding the pipeline of disbursements interrupted more than two years ago. We cannot expect the IFIs to make disbursements in 1990 to Panama to cover both the stock of arrears and the flow of payment falling due. It would be very imprudent of the government of Panama to borrow this much money from the IFIs in one year. However, we are confident that a positive balance can be reestablished on an annual basis as Panama regularizes its financial relations with the IFIs.

Once these steps to define Panama's economic program in detail are taken, Treasury will call the first support group meeting. We have had preliminary discussions with a number of other nations regarding contributions to the arrears clearing exercise. Our objective is that the $130 million set aside by the Endara government and the $130 million foreseen on the supplemental request will be matched by an equal amount in aggregate from Japan, Korea, Taiwan and the European nations.

The resulting $390 million would in turn be added to a bridge loan of $150 million from the U.S. Treasury and linked to resumed disbursements from the IMF and World Bank to close out the $540 million arrears to the IFIs.

Status of Blocked Accounts

As of March 13, a total of $256 million had been released to Panama from blocked accounts in the United States. A further $169.7 million remains in escrowed accounts. Of the remaining funds, $122.6 million is in the Federal Reserve Bank of New York. The Panamanian government has not requested the transfer of these funds to Panama because it intends to use them for its contribution to clear arrears to the IFIs, in conjunction with the support group. $45.4 million remains in the so-called "509 accounts," pending resolution of outstanding tax questions between the corporate taxpayers and the Panamanian tax authorities. These accounts are blocked reserve accounts that U.S. companies were entitled to keep on their books or with a commercial bank in lieu of making payments into N.Y. Federal Reserve Account #2.

It is our understanding that the escrowed funds released or to be released to the GOP are incorporated as government revenue in the 1990 budget now being finalized by the Panamanian government. The portion not earmarked for clearing arrears to the IFIs will be used to finance regular budgetary expenditures.

With the release of the escrowed funds, the Panamanian government has attempted to regularize some of its internal payments. At the end of the year the government was essentially a month behind in ordinary salary payments. These were brought up to date based on release of escrowed funds at year end, at a cost of $40-50 million. The Noriega regime, in a last ditch attempt to raise cash, had retained payroll allotments and withholdings from government employees' checks. These covered such things as mortgage payments and social security payments. Some $15.4 million was paid during January and February to bring these accounts up to date as of December 31, 1989. A further $13.6 million was scheduled to be paid at the end of February. $2 million of supplier bills overdue from 1985-1988 were also paid and an additional $8.8 million in overdue supplier bills is being reviewed for payment.

In addition, the government has used the escrowed funds to help meet its minimum monthly expenditures. During the December-February period, tax collections by the Panamanian government were abnormally low. In light of the chaotic conditions prevailing, the GOP deferred the payment date for 1989 income taxes from January 31 to March 15. Tax revenue collections in December were substantially below the already badly depressed levels of December 1988 and only one-quarter of collections in 1986 and 1987. Collections in January and February were unchanged from depressed collections for the same period in 1988. Part of this may be made good as postponed taxes are collected on a delayed basis. However, the looting losses will carry forward and result in a permanent loss in the tax revenue this year.

Description of Economic Recovery Package

The President's economic recovery program for Panama recognizes the Endara Government's short-term budgetary situation and the fact that resources must be provided to help meet an enormous 1990 financing gap. It aims to provide assistance as quickly as possible to priority areas identified by the Endara Government. A considerable measure of self-help by the Panamanians is needed for the program to succeed. This depends on the commitment of the government to economic reform and on the private sector's ability and willingness to utilize opportunities effectively. The program would consist of the following broad components:

oo $185 million - These funds would be deposited in the banking system for on-lending to the private sector.

Let me speak briefly about this component of the recovery program. As I mentioned, the Administration's proposal puts the focus on the private sector as the engine of economic growth and job creation. Panamanian economic activity fell 17% during 1988 and 1989. The private sector took the brunt of this decline. Construction activity has declined 70.8% since 1987. Manufacturing fell by 19.4% over this same period, and domestic commerce sales fell by one-third annually, on average.

With the advent of the political crisis in 1987, both overseas depositors and Panamanians began pulling their money out of local banks. When U.S. sanctions were put in place, the deposit withdrawals turned into a full-scale run, leading to a freeze on withdrawals and temporary closure of the banks. Since their reopening, restrictions on access to time and savings accounts continue, although demand deposits have been unfrozen.

Approximately $1.4 billion of savings and time deposits remain subject to withdrawal restrictions. Panamanian banks are individually working to improve their position in anticipation of a lifting of deposit restrictions, now scheduled to be eliminated effective June 30, 1990. These actions include accumulating cash reserves, negotiating extended terms with major depositors, and bilateral arrangements to refinance portions of loan portfolios. These moves, while necessary and prudent, inhibit banks' ability to resume lending.

The $185 million is designed to reactivate lending activities to the private sector on an expedited basis in order to recharge the economy. Credits to the private sector would be lent on commercial terms with criteria based on economic efficiency, job creation potential and economic development policy considerations. We currently are discussing with the Panamanian government the mechanics and technical details of how the funds would be lent through the banking system to the private sector.

Because credits would be extended to business applicants on the basis of economic criteria, we cannot predict the sectoral distribution of credit. However, given the absolute declines in the activities of the domestic commercial sector, manufacturing, and construction, it is clear where the lack of credit has been most strongly felt and where new credit is most urgently needed. In addition, the agriculture sector, which has been starved for credit since the 1970's and which has declined from 15 to 11% of GDP as can consequence, can used part of this credit. The Panamanian government also will want to ensure that credit is available to Panamanian businesses that were looted.

The other components of the $500 million include:

oo $140 million - These funds would be provided to the Government of Panama to finance a public investment program to generate employment and domestic demand.

oo $45 million - These funds would be provided to the Government to address areas where policy reforms are needed. Assistance would facilitate judicial reform and the needs of the civilian police force, fiscal management and accountability, privatization of public enterprises, the restoration of public services, private sector export promotion and watershed protection for the Canal.

oo $130 million - These funds would represent a U.S. contribution to clear Panama's arrears to the IMF, IBRD, and IDB so that Panama will be eligible for new lending.

Status of Agreements on Bank Secrecy and Money Laundering

We have been very encouraged by indications that the Endara Government is serious about attacking Panama's money laundering problem, that it recognizes the disturbing extent to which its banks have been used to launder drug proceeds, and that it will consider modifying its existing laws and procedures to facilitate criminal investigations and to provide a mechanism for exchanging law enforcement information with the U.S.

The Panamanians have taken a number of concrete actions to demonstrate their commitment to preventing the use of their banking system by narcotics traffickers and other criminals. For example, in late December, the Endara Government froze over 300 bank accounts suspected of being used for drug money laundering. The Endara Government is now obtaining information about these accounts so that it can be provided to U.S. investigators. In early January, Panama signed an agreement with the U.S. to take measures to combat money laundering. On February 13, 1990, the Endara Cabinet issued Decree No. 41 which requires banks to obtain information from their customers about transactions in currency and/or certain negotiable instruments of more than $10,000.

Just last week, a U.S. team consisting of representatives from the Departments of Treasury, State and Justice, participated in a series of meetings with high-level Panamanian officials in Panama to discuss actions that they have taken, and additional steps they could take, to prevent Panama from again becoming a money laundering center. The U.S. and Panama also are discussing various law enforcement agreements. Because of the sensitive nature of these ongoing discussions and the need for internal discussion of the options in Panama, it was agreed that the specifics would remain confidential.

Nicaragua

I do not intend to go into a full description of the President's program for Nicaragua. The State Department and AID representatives are prepared to describe their programs in detail. I will devote my remarks to the macroeconomic context of the recovery program and to the issue of arrears.

Economic recovery requires that Nicaragua develop a strategy with three objectives: stabilizing the economy, implementing across the board structural reforms, and clearing arrears. Arrears to the Multilateral Development Banks total $233 million and arrears to bilateral creditors total about $1.4 billion.

The new government must work with the IMF to develop appropriate economic policies to lay the groundwork for sustainable growth. U.S. assistance should be linked to the implementation of economic policy reforms. An agreement with the IMF could enable Nicaragua to reschedule debts to official bilateral creditors. In addition, it would help to restore confidence in the economy and establish international support and coordination for its economic recovery effort.

Arrears will be dealt with in the context of an international effort. The effort will be slightly different from what we have undertaken for Panama because Nicaragua does not have arrears to the IMF. We have already had preliminary discussions with other countries regarding potential support for Nicaragua. In addition, we have held preliminary discussions with Mrs. Chamorro's economic team on their economic plans, relations with the IFIs, and the development of an arrears strategy. We believe that a strong contribution by the U.S. will help catalyze international donor support for clearing Nicaragua's arrears to the World Bank and IDB. In this regard, we are looking to the World Bank to take a major role in resolving the problem of Nicaragua's arrears.

Conclusion

The United States remains committed to nurturing successful democratic institutions in both Panama and Nicaragua. This task requires the commitment of timely and substantial resources that respond flexibly to the economic conditions of the two countries. In Panama, our effort will be of a more short-term nature. Nicaragua will require a longer term commitment of development assistance. Both countries expect and deserve significant United States support. The people of these nations have suffered greatly. We must not sell them short. Let us not hesitate to demonstrate our solidarity with their struggles and our dedication to seeing that the people of Panama and Nicaragua reap the benefits of their new democracies.

AID TO PANAMA

Senator LEAHY. Thank you very much.

I would like to note the problems Nicaragua had when a relatively small amount of money was going down to help the campaign of Mrs. Chamorro. One of the holdups was finding any bank down there that could even take a million dollar check and pay it out.

We are talking about considerably more money than that, so I think that those are some of the issues that are going to come up.

Now, Secretary Eagleburger, you talked about jump-starting the economy of Panama. This package does more than that. I mean, you cannot realistically say that you are not going to be back for more aid for Panama, can you? Here is a country which has virtually no manufacturing base, nothing that you can really jumpstart.

Mr. EAGLEBURGER. Mr. Chairman, I cannot make an absolute promise that we would not be back. But our intention and the intention of this program is to do what we can in the immediate future to get the economy moving again. We have a conviction that Panama, unlike Nicaragua, is not in a situation in which we will be back for a number of years asking for money.

I do not know that we will find it necessary to come back next year.

Secretary Robson is nervously jumping over here. He would also like to answer.

Mr. ROBSON. I do not think it is our intention to come back, and I think the concept here, Mr. Chairman, is one of a handoff to the private sector and to the international financial insitutions [IFI's]. And Panama, bear in mind, is an economy that is about 80 percent a service economy. Agriculture is a relatively small part of its economy, and there are opportunities, we believe, to move it forward fairly briskly.

Senator LEAHY. There may well be opportunities, but I think what we have is a situation, Mr. Secretary, with all due respect, where we had the invasion of Panama and the removal of General Noriega. I agree with what Secretary Eagleburger said before—everybody was saying, why do you not get rid of Noriega, and we indeed did. I know, from the day I spent there that the invasion was an action that seemed to be very much accepted and encouraged by the Panamanian people.

But almost immediately we also had to show continuing support, and I understand that we had to put the Endara government on its feet. We had to show that there is a democratically elected government in a country that does not have a long tradition of that.

PANAMA'S ARREARAGES TO THE MDB'S

But it seems like the amount was sort of pulled out of the air and then the justification came from it. I referred to some of this in my opening statement. Secretary Eagleburger, regarding the multilateral development bank arrearages, I cannot think of anything that makes less sense than trying to clear up Panama's back debts to the multilateral development banks at a time when they may very well need that same kind of a jump-start that Secretary Eagleburger is talking about. The Brooke amendment was waived, congressionally voted for, but one can argue that was not the wisest thing to do.

The Brooke amendment would require Panama to pay back what it owes the United States before we give it any more aid. So what we have said by waiving it, is that we are going to take the American taxpayers' money to help Panama pay its debt to the international development banks without getting any of that back to us first.

Here are the numbers I have. Panama owes $540 million in arrears to the multilateral development banks. It owes $265 million in new payments this year. That is a total of $805 million in 1990.

Now, to pay that off—and this is where all I could think of was when I was a kid I used to watch the Abbott and Costello "Who's on First" skit—Panama has used $130 million of the $200 million in its assets that the United States is still holding. Then you want us to appropriate another $130 million to give Panama to pay to the international development banks. Then we have to go to Japan and Western Europe, beg them, with no indication that they will go along with it, to put in another $130 million.

Nick Brady has to then loan Panama $150 million to pay the World Bank, which would then loan Panama $150 million to pay back Nick Brady. They should save the postage at least and skip the whole exercise.

Then after we have paid out over $800 million this year alone, Panama would get less than $400 million in loans. So they will have paid out $400 million at a time when they need to be jump-started—and I agree with that. They will have paid out $400 million more than they get. And then next year the flow from the multilateral development banks will still be negative.

Mr. Secretary, my billion dollar question is this: Is this thing as cockeyed as it sounds?

Mr. **Eagleburger**. Not at all, Senator.

Senator **Leahy**. Why?

Mr. **Eagleburger**. Let me try to explain that, and I am going to ask Secretary Robson to take most of the IFI questions. But let me break it into two pieces.

Mr. **Robson**. I appreciate that, Larry.

Mr. **Eagleburger**. With regard to the Brooke amendment, Senator—and there is a fundamental point here we should have made. I did not make it in my oral statement, but it is fundamental to the whole program, and you referred to it. We do not view what we are doing in Panama as exclusively our obligation.

We have been in discussions with other countries. We will continue to be in discussions with other countries on their contributing to the effort in Panama and indeed in Nicaragua as well. I would argue that passage of this bill will strengthen our ability to convince other governments to contribute their fair share.

But let me make there is a specific point with regard to Brooke. One of the reasons we are asking for the Brooke amendment waiver in this case is precisely because, as we approach other countries we do not want them in the position of saying that all Panamanian debts owed to country X must be repaid before they can begin the process of assisting Panama.

So one of the reasons we think it is important that Brooke be waived in this case is precisely so that we do not set a precedent for other countries that we are going to try leverage, and I think successfully, into assisting Panama.

Now, with regard to the Abbott and Costello, who is on first, who is on second, I would like to turn to Mr. Abbott to try to answer the second half of the question.

Mr. **Robson**. Thanks, "Lou."

Let me go back to the first day that Secretary Eagleburger and I were in Panama, which was just a few days after the military action down there. We sat down with Endara and the other members of his political and economic team, and if my memory serves me correctly, as they laid out their economic plan almost the first words out of their mouths were: We have got to get ourselves rearranged and back in good standing with the international financial institutions.

So the concept of dealing with that issue is certainly not one that originated with the folks you are looking at. As I said earlier, the notion of dealing with the Panamanian situation is to hand this off to your two backfield men, one the private sector and second the international financial institutions, and by doing so get out of the problem and avoid having to come back here next year.

Now, you, not without some justice, point to the arithmetic of the first year of this program, and the fact is that they do owe $540 million, and the fact is that in order to stay current this year they are going to have to come up with another $265 million. And the fact is that that adds up to $800 million, and the fact is that they are not going to be able to get this year out of the IFI's loans that are in that amount.

But I think you have to recognize, and I hope you will, that the arrearages here are ones that have accumulated over about 3 years, and they are ones that simply cannot be—if we are going to deal with them at all, if we are going to get access to the outflow from the IFI's, if we are going to get the benefits of the increased credit standing of Panama, the variety of programs that the IFI's can bring, we are going to have to get those arrears cleared up, because if we do not we will not get a plugged nickel out of the IFI's, as you very well know.

And that is the strategy. Now, you can say that is goofy.

Senator **Leahy**. Well, Mr. Secretary, with all due respect, I think it is, because at the time when they are in the greatest need we distance them as far as possible from actually getting any infusion of cash. What makes no sense to me is that following the dramatic change in the whole Government of Panama—removal of Noriega, replacement with a democratic government—we cannot arrange a breathing spell where Panama would not be in the situation of a negative cash flow and give them something to get their feet back on the ground, except by massive infusion of United States aid.

It looks to me like the only possible thing that they have going for them is a massive infusion of American aid, certainly far more than we are willing to commit ourselves to put into Eastern Europe, where the United States has a far, far greater national security, economic, and political interest than it does in Panama.

Mr. ROBSON. I shall leave to Secretary Eagleburger the questions of comparative foreign policy values. But from the standpoint of the strategy here, Mr. Chairman, it is going to take you 1 year to dig out of a hole that Manuel Noriega put Panama in for 3 and put you back on a path that I think will avoid the return of the administration, because you are going to start getting an inflow of projects and funds from the IFI's.

You suggested earlier that you thought that there would be a negative flow after this year. That is not our expectation.

PANAMA'S NEW PUBLIC FORCE

Senator LEAHY. Well, you say the money is to put Panama back on its feet after the damage done by General Noriega for several years. Part of this public sector restructuring—and I will address this to Secretary Eagleburger—is $40 million to help Panama modernize and restructure its government. But the bulk of that is to help train and equip the new public forces.

Now, the public forces are made up almost entirely of former Noriega PDF people, or public defense force soldiers. Now, under Noriega they had a certain status, one that you and I would feel such a force should not have. But they were kind of the lords of the manor in Panama. They could go wherever they wanted, do whatever they wanted. They controlled things.

Now the same people are moved over to the public forces. Their morale is lower. They have lost their status. They are despised, many of them, by the people down there. Some of them had links with organized crime and drug dealers before.

What steps would be taken, if the money is appropriated, to stop them from building up just another PDF, just waiting for the person on horseback to come in and take over?

Mr. EAGLEBURGER. Mr. Chairman, I think there are several pieces to the answer to that question. I think you saw Vice President Arias Calderon when you were down there, and I certainly spent a good bit of time with him. I think you would agree that he is largely responsible for the rebuilding of a security force of some sort in Panama. And I think you share my view that at the top levels, starting with the President and the two Vice Presidents, there is every intention, to the limits of their capabilities, of removing bad elements from the new public force. Indeed, they have removed a number of the worst perpetrators of crime who came from within the earlier PDF.

I would be less than honest with you if I did not say, obviously there are going to be people in the new force who were in the last one. That is a reality of the situation in Panama.

But I am absolutely convinced that at the top levels there is a conviction and an intent to eliminate from that force everyone they can identify who was a particular problem in the Noriega regime. That is the first point.

The second point is there is an intention, which is now being met, to reduce the size of the force.

The third point is that there is an intention to make this a police force, not a military force, which again I think to some degree meets some of the concerns you have addressed. But I cannot deny that an armed force of any sort in a country such as Panama could offer a threat if the democratic forces do not take root in the country.

Finally, the whole purpose of most of the money that you have identified is in fact for the purpose of training, in the hope and in the expectation that with that training there will be a substantial change in the attitude of the new forces, new security forces in Panama, away from the old and bad habits of the past.

I cannot say that any one of these things alone is sufficient to meet all of these concerns. I can tell you that it is our judgment that, taken together, there is a better than substantial chance that we can, working with the Panamanians, change the character of their police force. It will not be a PDF-type force when the process of rebuilding it is concluded; it will play an appropriate role in the structure of government, not an inappropriate one.

I should also say, sir—I would say this with regard to all of the moneys involved here—we will through AID be very careful to follow the audit trail on all of this money. We will be careful to establish methods whereby we can know how this money is being spent.

Senator LEAHY. I have used my time but I will come back around again.

Senator Kasten is being kind enough to let us yield to Senator DeConcini, who did want to make a brief opening statement.

STATEMENT OF SENATOR DENNIS DECONCINI

Senator DECONCINI. Mr. Chairman, thank you. And Senator Kasten, thank you.

I will put my opening statement in the record. I have a series of questions, Mr. Chairman, which I will ask the Secretaries to please answer. One issue which concerns me greatly is about the military construction funds, which you are proposing to use for the supplemental for Panama and Nicaragua. Can you give us some details as to what milcon projects you are not going to fund, Mr. Secretary.

The one I have for Treasury deals with the Eastern European Development Bank. I would like to know the background and the reason for the Secretary pushing for this new book instead of using facilities which are already available. The International Monetary Funds and the World Bank are already there.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR DENNIS DECONCINI

Thank you, Mr. Chairman. I appreciate Deputy Secretary Eagleburger taking time out of his busy schedule to be with us here today. I don't want to take up time with a statement, but I will say a couple of quick words.

Events are continuing to outrun our ability to cope with the changes. As the number of new democracies multiply, there is going to be a temptation to plead our own poverty in response to requests for help. While this feeling is understandable, I think we cannot dodge our responsibilities to these fledgling democracies. Assistance rendered now will be more than repaid in greater stability and a safer world in the future.

At the same time, we have to ensure that the other wealthy democracies and international organizations are carrying their share of the burden of helping these countries. Frankly, this is one area of concern I have about these packages before us today. And finally, alarming reports of rising anti-semitism in the Soviet Union raise some questions whether the increased funding asked by the administration for the refugee budget is sufficient. It may very well be that we need to increase our efforts to resettle refugrees from religious persecution in the Soviet Union both in the United States and in Israel.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Senator **LEAHY**. Thank you.

Senator Kasten.

Senator **KASTEN**. Thank you, Mr. Chairman.

I might just say, Dennis, I have been asking the same questions with regard to the new bank, and have made a couple of statements on it. We are here trying to squeeze another *x* number of dollars out of the 150 account at the same time that Treasury is negotiating expenditure of another $80 million for our initial contribution to another multilateral development bank, a whole other group of conferences, another whole group of offices; all the things that all of us have been concerned about, when a facility at the World Bank specializing in Eastern Europe could be put together immediately and would meet virtually all the requirements.

Senator **DECONCINI**. If the Senator would yield, I thank him for raising it, because I read one of the statements that the Senator made on the floor and I think that the argument needs some answers to it. I just cannot see the advantage, except keeping up with the French and some of the other players there, why we cannot do it through something that is already there.

I would like to assist the ranking member in exploring that with the administration.

Thank you, Senator.

DEFERRALS AND OFFSETS

Senator **KASTEN**. Mr. Secretary, in order for the Congress to approve these supplementals absent a budget waiver, these appropriations will have to be offset. One of the problems is that the offsets which have been previously worked through OMB and Defense have not been adequate, for a number of reasons.

We also have a question with regard to the so-called deferrals that have been set aside by OMB and the Department of Defense. A number of people have said that they will not consider this legislation until the deferrals are negotiated through or withdrawn and we have adequate real offsets.

Will the deferrals be withdrawn within the next 24 or 48 hours or negotiated through? And are the offsets that you now propose adequate, and have they been reviewed by OMB, CBO and the appropriators?

Mr. **Eagleburger**. Senator, I am in the awkward position of not being able to answer your question. The best I can tell you is, as I think you know, the President has instructed the Secretary of Defense and Mr. Darman to work with the relevant committees of the Congress to establish appropriate offsets and to deal with the issue of deferrals.

I understand that process of consultation has begun. As I think you heard this morning with me at the leadership meeting, it is a process that is still underway. I do not know the details of the offsets that are being discussed. They are in the Defense Department budget, as you indicated. It is in the hands of Mr. Darman and Mr. Cheney at this point, and I cannot answer the question other than to say that they are in consultation with the various Members of the Congress.

Senator **Kasten**. My understanding, through telephone conversations and at our meeting this morning, is that we will have this issue behind us, if not within 24, certainly within 48 hours. I think it is important that those issues be resolved before we begin with this set of questions and problems.

Mr. **Eagleburger**. Let me just say, Mr. Chairman, I do not think there is any argument with the administration on the issue that this set of issues has to be settled before we can expect to move forward.

AMOUNT OF MONEY FOR PANAMA AND NICARAGUA

Senator **Kasten**. Some have questioned the amounts of money with regard to both Nicaragua and Panama. Specifically, some have said that the administration really does not want or need $500 million for Panama; they are hoping that we will get something maybe closer to $300 million or $350 million.

How did you arrive at the figures? Why is it $500 million and not $600 million or $400 million? And describe for us the difficulties, if they would occur, of underfunding either the $300 million or the $500 million for Panama or for Nicaragua, respectively.

Mr. **Eagleburger**. Senator, in shorthand, the way in which the Panamanian figures were arrived at involved, amongst other things, a trip by Secretary Robson and myself and a team to Panama, in which we quickly looked at the situation in Panama and talked to a number of the Panamanian leaders. There was a team of economic experts that was there in advance of us. There were some more people that we took with us, who stayed in Panama.

Over the course of, I would guess, a 2-week period of discussions with Panamanian officials and with the American Embassy, we proposed the package which included the first $500 million, which has already been taken care of, and included as well the $500 million which is now before you for consideration.

It was not the product of grabbing some figures out of the air. It was in fact the product of a number of very hard and long discussions with a number of people. I suppose that if we had come in with a request for $496 million rather than $500 million, we would have been able to make the case that we were being more precise.

But the fact of the matter is that we, on the basis of the studies by the experts, came up with these figures, and we have done our best to describe how we would use those moneys. I would be more than happy to try to defend them further this morning.

Let me say now, I do not know where the reports are coming from that we would be happy with less than the $500 million for Panama and we would like $200 million put into Eastern Europe. If it is mattress mice in the State Department who are saying that, I emphasize they are mattress mice.

The fact of the matter is that the President of the United States, the Secretary of State, the Secretary of the Treasury, and everybody else, including those of us who are here right now, believe the $500 million is necessary for Panama. And I have not had a chance to discuss, but would be more than happy to, the differences between this and Eastern Europe.

We believe this money is necessary. We have tried to defend and describe why it is necessary. We also believe that a cut in those moneys, particularly a substantial cut, would send wrong messages to the Panamanian Government and to the Panamanian people, and would delay the process of getting that economy back on its feet.

Beyond that, deponent sayeth not. I think it is terribly important that we get this money.

Senator KASTEN. At that level?

Mr. EAGLEBURGER. At this level.

REFUGEE FUNDING

Senator KASTEN. I want to just switch if I can; my time is about to expire. As you know, there is $70 million of refugee assistance money added as part of this overall package. I want to associate myself with the views of the chairman. In my opinion, that $70 million should have been $90 million.

I understand that there were negotiations and or discussions that $70 million is a final figure. If there are ways that we can help in terms of refugee assistance on either this bill or some other legislative vehicle, I simply want to say to you that this committee feels very strongly about the refugee money. It is very important that we meet the hopes and expectations of a number of people with regard to refugees.

My final question is about refugees, also. A number of us have considered adding to this supplemental appropriations bill a $400 million housing investment guarantee package for refugees from the Soviet Union who emigrate to Israel.

What is the administration's view with regard to such a package?

Mr. EAGLEBURGER. Senator, there has been some question about that, I know, in the last few days. Let me try to make it clear. The administration would support the housing guarantee program at $400 million if or on the assumption that we can obtain adequate assurances with regard to those funds from the Government of Israel with regard to the use of those funds.

There obviously is at the moment a question as to who the Israeli Government is. These are questions that would have to be dealt with once that issue is settled. But on the assumption that we can get the right kinds of assurances from the Government of Israel with regard to the uses of that money, we would support the guarantees.

Senator KASTEN. Thank you, Mr. Chairman.

Senator LEAHY. Thank you.

Senator D'Amato.

MONEY LAUNDERING PROBLEMS IN PANAMA

Senator D'AMATO. Larry, let me touch on two things. First, I would like to underscore my support for aid to Panama because I do believe, as Secretary Robson has indicated, that there will not be that constant need there. It may be that you will come for some requests, but it will not be on as large a scale, and that there is an infrastructure there, there is a middle class there, and there is a revenue stream of over a billion dollars a year that comes in to the Panamanian Government.

So we have a unique opportunity to give it that jump-start. But one thing that does concern me is the progress, or lack of progress, that we see with respect to any legal assistance treaty dealing with the money-laundering provisions. I have to tell you that my experience with the bankers in Panama left me less than enthused.

There was, to put it mildly, a great reluctance on their part to come up to the plate and admit that there had to be a treatment of this situation.

Have we made any progress? Do you believe that the government is moving forward and will be in a position to offer us either that kind of comprehensive treaty or agreement that will see to it that we end that money-laundering haven that Panama had become?

Mr. ROBSON. If I may start in response to your question, Senator D'Amato, I think that the second thing out of the Panamanians' mouths when we were down there in January after we talked about clearing up their arrears was a very firm expression of their determination to deal with the money-laundering problem in their country, and they have expressed it many times since.

Not only have they expressed it, they have followed it with actions. They have, for example, frozen 300 or so bank accounts that were alleged to be money-laundering devices. They have entered about 2 months ago a cooperative agreement with our Government on money-laundering and narcotics trafficking.

Just a short time ago, the Cabinet passed a decree that directs their banking commission to issue regulations which would require the verification of identity and the signing of a statement, which goes further than the U.S. law, for any cash or negotiable security transaction in excess of $10,000.

Finally, as you may know, there have been recently negotiations going on between our Government and the Panamanian Government looking toward a broader set of arrangements that deal with law enforcement, money-laundering, and information sharing. Those negotiations were entered under a commitment by us to maintain their specific progress and content in confidence.

However, we would be more than happy to sit down with you or any other member of this committee and give you a private briefing on where we are.

TRANSFER OF POWER IN NICARAGUA

Senator D'AMATO. Let me ask you one further question regarding Nicaragua. The request for U.S. support is contingent upon handing over of power by the Sandinistas to the Chamorro government on April 25, 1990, is that not the case?

Mr. EAGLEBURGER. That is correct.

Senator D'AMATO. Would you care to elaborate on that at all?

Mr. EAGLEBURGER. Well, you mean in terms of whether we think the handover will take place?

Senator D'AMATO. Yes; and what will you be looking toward? What are the kinds of things that we will be looking for? Because I want to be supportive, but I want to really understand, too, that the handing over of power as it relates to the police and the military—I just hear one side of this now. What is going to happen?

I get off the plane and a constituent says: Well, what are you going to do with the Contras? Well, yes, sure, the Contras lay down their arms; what about the Sandinistas? What about the military power they have? Are they going to become subservient to the government or are we going to have a mythical transfer of power when we really know that indeed, notwithstanding the election of Mrs. Chamorro, that the Sandinistas continue to rule by way of the gun and the army?

Now, what are we going to do about that? That is not a pleasant question to put forth. No one really wants to grapple with it.

Mr. EAGLEBURGER. No, no; it is a perfectly legitimate question, Senator. And the fact of the matter is, first of all, just to make it clear, the money obviously does not move at all, assuming it is appropriated, until Mrs. Chamorro has taken power.

You have raised a number of issues which only time will in certainty give us the answers. Our belief—and this is included in a number of conversations, including most recently between the Vice President and Mr. Ortega—our belief is that in fact the Sandinistas intend to turn over power.

It is clear they intend to become an effective opposition party.

Senator D'AMATO. That is fine.

Mr. EAGLEBURGER. And that is understood. Our expectation—and at this stage I cannot say I can guarantee it—our expectation at this stage is that when Mrs. Chamorro takes power she will in fact take power across the board. She will be able to name her cabinet, she will be able, as she has said herself in her campaign, to reduce the size—reduce substantially the size—of the Nicaraguan Armed Forces. We believe she will do so.

I must say it will take some discussion, some time, some negotiations, to accomplish that.

Clearly, another problem for us all is the question of the Contras and the question of the Sandinistas and their control of the Nicaraguan Armed Forces. That is, there is a process here we are going to try to manage, and I think we can manage, that will get us to the point of an effective turnover by the Sandinistas to Mrs. Chamorro.

I would make the point that once she takes power we will be able to see during the weeks thereafter how the process continues. And I should make the point as well that, obviously, if the process does not work there are ways in which these moneys could be stopped. The fund will certainly not all have arrived in Managua within 24 or 48 hours of her taking power.

Our expectation at this stage, on the basis of all of the evidence we can see, is that there will be a turnover of power, she will take power, and she will be able to manage the process of assuming control of the country.

Senator D'AMATO. The economic aid then is contingent upon the good faith efforts which are now being carried out, and this appropriation will put us in the position to monitor that and to respond——

Mr. EAGLEBURGER. Yes, sir.

Senator D'AMATO [continuing]. As those facts come into play?

Mr. EAGLEBURGER. Yes, sir.

Senator D'AMATO. Thank you, Mr. Chairman.

Mr. EAGLEBURGER. Let me just make one more point which is it is also our firm belief that by providing these moneys we strengthen Mrs. Chamorro's ability to take over the reins of power and govern the country, both in terms of the fact that the United States has expressed confidence in her and in terms of the fact that what happens in Panama is going to make a big difference to her ability to govern.

Senator D'AMATO. Thank you.

Senator LEAHY. Senator Lautenberg, then Senator Specter.

Senator LAUTENBERG. Thank you, Mr. Chairman.

JUMP-STARTING DEMOCRACIES

Mr. Secretary, I am pleased to see the administration becoming assertive in its leadership role by asking for this supplemental. It says that where we see an opportunity for democracy to flourish, to develop, we are going to be there to help, and I am pleased to see that because I think that is a role that this country has not taken quite as seriously as I would like to have seen over the past years.

As I said earlier, I hope we are not going to be left behind in Eastern Europe when those countries turn to friends for aid and be locked out of an opportunity to really create the kind of peace roll that we are on.

However, I am a little less optimistic than either of you seem to be. You talked about jump-start. I think of a jump-start as something you just throw the cables on, give it a go, and the engine has got gas and it has got oil and it goes. I do not know where the gas is going to come from to keep this thing going once it goes.

I hope, like you do, that the private sector initiatives will develop and so forth. It is going to take a fair amount of time. There has been major disruption in both those countries that we are addressing today, but once again I think it is the right thing to do.

OFFSETS

I would be interested in when you think the final list of those areas, those specific items from which the funds would be transferred, would be available to us?

Mr. **EAGLEBURGER**. You mean the offsets, Senator?

Senator **LAUTENBERG**. Yes.

Mr. **EAGLEBURGER**. Again, our hope, based on what I know of the discussions, is that this is an issue that should be settled within the next several days at the most.

Senator **LAUTENBERG**. But I just wanted to reconfirm.

The numbers that we are discussing here when we think about, again, opportunity, national size, et cetera, what we have put aside thus far for Poland and Hungary is less than we will have committed to Panama and Nicaragua, assuming that the supplemental goes through as is. The stakes are big in all parts, but they are I think much more significant in terms of Eastern Europe. And I again visited there several times. The most recent trip I just talked about.

I see great opportunity, and we are going to have to belly up to the bar, as they say, and I think tell those countries that we are there to help, and it is going to be funds in addition to that which we are committing to Panama.

DEMOBILIZING THE CONTRAS

I was not sure how the response to Senator D'Amato's question was finally concluded, but I am going to take the reverse side and ask what the administration's position is on the demobilization of the Contras and how that process might work?

Mr. **EAGLEBURGER**. You have used the right word, Senator. It is a question of process, and we have been active for some time in trying to engage in getting that process structured and working, including, for example, Secretary Baker meeting with the leadership of the Contras last week to discuss moving forward.

Let me start by saying—and I think you understand this without dwelling on it—that we are coming out of a civil war in which there is great mistrust on both sides, so we have to start with that fact. It is our firm belief that the Contras must be demobilized. We have been talking to them with regard to that subject. It is not linked to any question about what happens with regard to the Sandinista military; that is a different question.

One of the things we have requested money for here is money to help in the process by providing some funds to the 16,000 fighters and their families, 60,000 people altogether, which would provide them with a means, about $500 each, to go back into Nicaragua and give them some seed, things that would get them back into the economy.

It is moving slowly. There has been some evidence of the beginnings of demobilization of the Contras. We think the process will work its way through.

We have got Cardinal Obaudo in Nicaragua prepared to assist in that effort. We want to give him some money to help assist him in that effort. I must tell you he suggested, he the Cardinal suggested, within the last few days that the Contras and the Sandinistas meet, and the Sandinistas turned it down.

So I want to emphasize, this is not all simply reluctance on the Contras' part, but there is distrust, and the process will move forward slowly. I think it is clear that they will move forward, and I and the administration are reasonably confident that, while demobilization may not have been accomplished, totally accomplished, by the time Mrs. Chamorro takes power, the process will continue and that they will be returned to the Nicaraguan economy.

Senator LAUTENBERG. The one thing I think that is clear is that, unless total power rests in the hands of the Chamorro government, taken from the Sandinistas as well as from the Contras, peace will not likely be achieved there.

Mr. EAGLEBURGER. I thoroughly agree, sir.

Senator LAUTENBERG. The U.N. is readying an 800-man force, a peacekeeping force. Who is going to pay for that?

Mr. EAGLEBURGER. It is paid for by the international community, but we have a part of the cost of that in our request to you as well.

REFUGEE ASSISTANCE

Senator LAUTENBERG. I want to talk for a moment about the refugee assistance money that is going to run out April 1 if this supplemental gets bogged down. Have you given any consideration to separating the refugee money and moving that as a piece of legislation?

Mr. EAGLEBURGER. No, sir; we have not at this stage, because we are hopeful that it will not get bogged down. I should say that we have what is called the emergency refugee fund, ERMA, and we have about $24 million in that. If we have to, we will have to go to that if we run out of money. But we would devoutly hope that will not be the case.

Senator LAUTENBERG. Because again, just having returned Thursday from Moscow and seeing the program at work, seeing how diligently people from the State Department and INS are working on it, the anxiety of those who are waiting to come, waiting so anxious about their personal safety, the real concerns, it would be tragic to have to call a halt to the program. We should not interrupt that process.

THE SITUATION IN ISRAEL

What do you think about the situation in Israel? Now, as you describe it the country is effectively government-less. What do you think might happen between Israel and the Palestinians? Do you see a next step in place?

Mr. EAGLEBURGER. Senator, it is a situation in which I would like to tread lightly at the moment. There is no question that it is important that the Israelis get themselves a government as fast as possible, to get back to the process that we and they and the Egyptians have been working on. A long delay I think simply encourages further instability with regard to the occupied territories and certainly with regard to some of Israel's less enthusiastic neighbors.

I think we will see this issue settled fairly quickly, and hopefully we will see then a return to the peace process that was underway until the government split.

Senator LAUTENBERG. I asked you that question, Mr. Secretary, because I think it is critical that the administration, our country, assert that it is fully behind its friend and ally and that we will not be dissuaded during this period of government—of a situation without formal government in place, and that everyone understand out there that, regardless of who forms a new government, that the administration will continue the friendship, the support, that this country has been known for.

I think that that is the case. I am concerned about some of the statements made by the State Department and of course the President of late, but I think an assertion that we are there with our friend and supporter, regardless of who it is that takes over in this democratic country.

Mr. EAGLEBURGER. Senator, there should be no question about that. Statements given by friends do not, even if sometimes they are not appreciated by the friend, do not affect the friendship, and I do not think there is any question about that at all on the part of the President, the Secretary of State, or anybody else.

Senator LAUTENBERG. I think that is probably true, Mr. Secretary. But I am concerned because when we talked about, Senator Kasten talked about, the housing loan guarantee, Israel has made assurances. Now, what kind of guarantee is acceptable now to move this along?

Mr. EAGLEBURGER. Senator, I hope you will understand that if I say that, particularly at a time when the Israelis are in the process of forming a new government, I would rather not get specific about the assurances. That is an issue we will have to work out with the new government, whomever it may be.

I can assure you we will approach the issue with understanding, and I would rather not be pushed into trying to describe what those assurances would have to be in specific terms. It is a process of negotiation and discussion with the Israeli Government.

Senator LAUTENBERG. Encourage them, if you can, Mr. Secretary. You have a very tough assignment there. They hold out as a refuge for people who are trying to escape persecution, harassment, fear of a repeat of terrible deeds that we have seen in history with the Jewish people. And it would be reassuring to many concerned to know that this country made its position quite clear, but that, accepting that, that the guarantees will be normal guarantees, not to have to be negotiated over long periods of time, but rather get on with it if we can.

I thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator LEAHY. Senator Specter.

STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, at the start I compliment you on the very fine work you are doing. I would like to raise an issue on the refugee issue which is tangential to the $70 million, which I think is a good idea. I urge that it be processed as promptly as possible.

DIRECT FLIGHTS AND MOST FAVORED NATION STATUS FOR U.S.S.R.

That relates to the subject of direct flights from the Soviet Union to Israel in line with an agreement which was made, that now has been breached by the Soviet Union. I introduced a resolution which called for an expression by the Senate against granting most favored nation status to the Soviet Union under Jackson-Vanik unless they honored that agreement, for a number of reasons.

First, Jackson-Vanik directly hinges on emigration.

Second, why give the Soviet Union most favored nation status on commercial transactions if they are breaching a major commitment which they have made, and all of that in the context of the anti-Semitism which is growing in the Soviet Union and the limitations on the numbers of Soviet Jews who can come to the United States under our policies.

And my question for you, Mr. Secretary, is why should the Senate not make a statement at this time forcefully to the Soviet Union that if, as and when the issue comes before us we will deny, to the extent we can, most favored nation status unless they immediately comply with their commitments on direct flights?

Mr. EAGLEBURGER. This would be a sense of the Senate resolution or something of that sort?

Senator SPECTER. Correct. That is as much as we can do at the present time, because the issue is not directly before us. But it seems to me that the Soviets are now yielding to pressure from the Arabs and that the counterpressure might be effective.

It is probably an issue which they could go either way on, and they do want most favored nation status, and that turns directly on emigration and fidelity in commercial contracts. Why not let them know how we feel about it as directly and as promptly as possible?

Mr. EAGLEBURGER. The best answer I can give you at this stage, Senator, is essentially I think it probably would be counterproductive. But let me try to explain what I mean. First of all, this is an issue which has been raised by the United States with the Soviet Union on more than one occasion, including by the Secretary of State with Mr. Shevardnadze.

It has not moved and we think that is too bad, and we have continued to press the Soviets that they ought to support direct flights to Israel. We are not, certainly at this stage anyway, ready to recommend a waiver of Jackson-Vanik. We have made it clear to the Soviet Union that depends on what they do with regard to the emigration law and its practice thereafter.

I am inclined to think that to make as specific a linkage as you suggest would probably make our efforts to convince the Soviets to change their position with regard to direct flights more difficult to accomplish than less so. Now, we can disagree on the judgment on that, but my view on that one is that we are in a better position with the Soviets to convince them of the need to go to direct flights to Israel if we are in a position to say that that is what the administration wants and they are not seen—and say that in private—

and they are not seen to have knuckled under to a specific senatorial demand with regard to the subject.

But I will concede to you that it depends on your judgment on which way most easily affects the Soviets' judgment.

AID TO EL SALVADOR

Senator **Specter**. Mr. Secretary, let me leave that subject so that I can bring one other matter up with you, because of the shortage of time, leaving the addendum that I think the Senate feels very strongly. Some 100 Senators signed onto a letter to President Gorbachev urging him to honor that commitment. It is the first time anybody can remember all 100 Senators signing on.

Let me ask you very briefly about El Salvador, although it is not directly raised, but very close to Panama and Nicaragua. I supported the administration last year in an issue which came before the Senate to cut off funding unless the murderers of the priests were brought to trial promptly, and I voted as I did because they had not been identified and had not been indicted and it seemed to me premature to support that kind of a move. Remembering that I took the lead back in 1983 on withholding substantial funds from El Salvador until they brought the murderers of the nuns who had been murdered to trial, and even made a trip down to El Salvador and talked to the trial judge about the issue.

But the question I have for you, Mr. Secretary, is in the context of what we have seen in Nicaragua, would we not be better off not putting money into the military in El Salvador, because the more dollars which go into arms, bullets, the more killings there seem to be; and while humanitarian aid may be productive, that if we leave to the parties themselves the political settlement without adding to the armaments, that we might be hastening a political solution and minimizing the bloodshed and dead?

Mr. **Eagleburger**. Senator, again with all respect, I have to disagree with you.

Senator **Specter**. You cannot disagree with me. It is only a question.

Mr. **Eagleburger**. All right, then I do not disagree with you, at least yet.

It seems to us that this is precisely the time to deal with El Salvador in the ways in which we have suggested, to go forward with the moneys that we have suggested. And the reason for that gets back to a point you made. Events in Nicaragua I think have substantially changed conditions on the ground in El Salvador.

For the first time, we are now—not the first time, but for another time, we are now seeing the FMLN, under the aegis of the United Nations, close to reaching an agreement to begin to discuss with the Salvadoran Government again a ceasefire and some sort of a settlement.

They recognize, the FMLN recognizes, I think, that with the change that is about to take place in Nicaragua, one of their major sources of supply will probably shrivel and die. The El Salvador Government is committed, and has said so on more than one occasion, to proceeding to try to find a way to discuss with the FMLN a resolution of their differences. This is in fact, in my judgment, the most hopeful time we have seen in some time, and I think we ought to let the process develop as it is developing and not take steps which may convince either the FMLN that they can back away from the process or that may encourage the Salvadoran Government to believe that we are not going to continue to support them.

So I would like to see the moneys now called for for El Salvador continue without any change and let us see what the next 6 months bring.

Senator **Specter**. That is a complex situation. There is very limited time now and I shall not pursue it further, but would just add the concluding thought that there is considerable question about the advantage of putting money into armaments and that there is a great deal to recommend letting the parties work it out themselves.

I am hopeful that, as you express it, they will move toward a settlement so that they will resolve it between themselves.

Thank you very much, Mr. Secretary.

Mr. **Eagleburger**. Thank you.

Senator **Specter**. Thank you, Mr. Chairman.

Senator **Leahy**. Thank you, Senator Specter.

EL SALVADOR AND THE SUPPLEMENTAL

I might note, Mr. Secretary, although we will try to keep as many items off this bill as possible, I think there is almost a guarantee that the issue of El Salvador will come up. There is yet to be any higher-up ever convicted down there for atrocities.

And I hold no brief for the atrocities committed by the left. I have condemned them soundly. But it is the government that gets our aid and there has never been anybody in a command position who has ever been convicted of any of these atrocities, even though the evidence often has pointed to some of them. One is now being detained, although by the news accounts apparently detained in a great deal of luxury.

But that is an issue that will come up, just as the $30 million requested for the Contras in this aid package means that there will be still further Contra debate, whether we like it or not, on this issue.

HOUSING GUARANTEE FOR ISRAEL

Now, as you know, Senator Kasten and I introduced a bill to provide $400 million in housing guarantees. We did not include statutory language prohibiting the use of the housing loan guarantees in the occupied territories because we knew that there was a standard clause in United States assistance agreements with Israel.

The language from earlier housing guarantee contracts said something like this: The dwelling units are located in territory that was subject to the administration of the State of Israel prior to June 1967. In other words, it required that.

You may want to think about this. If that contract language is not sufficient, before this matter moves you should notify Senator Kasten and myself if we are going to have to add further statutory language to those guarantees.

AID FOR EASTERN EUROPE

Now, one of the things I raised again this morning in my opening statement and at the meeting at the White House is that the administration is going about aiding central Europe and Eastern Europe in kind of a piecemeal fashion. We put in a little bit of money for Poland and we put in a little bit of money for Hungary. When we see what happens with the unification of Germany, maybe we will have some for East Germany, maybe some for Czechoslovakia, and so on and so forth.

Mr. Secretary, I would like you and the administration to think about the idea of putting together a special aid fund, an Eastern Europe aid fund, with a fair amount of flexibility, but also a fair amount of money, to channel all of our United States aid that would go into that area, target aid to help American trade, help American investment, work with the democratic institutions.

A number of Europeans have come here and spoken certainly to you and those of us here in the Congress and asked just how do you run an election, how do you set up the equipment, the mechanics, things that we take for granted.

The newspaper today speaks of the terrible environmental problems of Europe. Krakow, for example, has enormous environmental problems, the life expectancy of many eastern Europeans is being diminished because of the pollution of the air, the water, the soil.

I just suggest this as something we ought to be thinking about. We should be a lot more imaginative. We were imaginative with the Marshall plan, we were imaginative with NATO. And now that all of the things that the Marshall plan and NATO stood for tend to be bearing fruition, I would hate to see the United States be left behind. Having sacrificed for 40 years to get us this far, when democracy is finally winning, we can't suddenly step back and have no influence, no ability, and no involvement with what could be one of the most exciting developments as we go into the next century.

FOREIGN AID PRIORITIES

Another reason I worry about this is that we are spending around $300 million to try to ensure United States participation in the transformation of Europe, but we want to put about $800 million to $1 billion in these two little tiny countries in Central America, which, other than their symbolic effect, do not begin to have as much bearing on our security interests or in our national direction.

Do we really have—I mean, does Central America really deserve this higher priority than Eastern Europe?

Mr. **Eagleburger**. Senator, I am glad you asked me that question.

Senator **Leahy**. I thought you might be.

Mr. **Eagleburger**. I have been waiting all morning to comment about that.

Senator **Leahy**. I saw you take a note this morning at the White House when the same question came up.

Mr. **Eagleburger**. You were very kind to give me a heads-up as to the question. I had a chance to think about it.

I would like to try to answer the question by talking about Eastern Europe for a minute first. Much of what you say you think the United States should be doing I think, sir, we are doing. I think our disagreement focuses on the amount of money more than anything else.

But I think it is important to understand that, first of all, if we counted U.S. assistance in the way in which some of our allies do, talking about tied credits, export loans, and so forth, our figures go well beyond what appears as regular budget outlays.

In fact, our people have put together a table which I would be glad to submit for the record, which shows that, with regard to Poland, in the course of the last year, if we count the way the Germans have and the British have and the French have, you can make a case that we have put $1.9 billion into Poland over the course of the last year. And I would be glad to submit that for the record.

Senator LEAHY. I would appreciate that.

Mr. EAGLEBURGER. Unfortunately, I did not bring it with me.

[The information follows:]

Value of U.S.G. Grants, Assistance, Guarantees and Rescheduling Activities in Eastern Europe
(All values are in millions of US$ unless otherwise noted; totals may not add due to rounding)

SEED ACT ACTIVITIES:	Authorized FY 90-92	Appropriated FY 90
STRUCTURAL ADJUSTMENT		
Agricultural Commodities	125	125
Stabilization Fund (grant)	200	200
PRIVATE SECTOR DEVELOPMENT		
Enterprise Funds	300	50
Labor Market Transition	5	1.5
Technical Training for Private Sector Development	10	3
Peace Corps	6	2
TRADE AND INVESTMENT		
Trade Credit Insurance Program	200	200
Trade and Development Program	8	4
EDUCATIONAL AND CULTURAL ACTIVITIES		
Educational, Cultural, and Scientific Exchanges	3	3
Poland and Hungary Scholarship Partnership	10	2
Scientific and Technology Exchanges	8	1.5
OTHER SEED RELATED ACTIVITIES		
Democratic Institutions	12	4
Environmental Initiatives	40	13.3
Medical Supplies	4	2
Total SEED Act	938	604
OTHER USG ACTIVITIES:	FY 90-92	FY 90
EXIM 1/	182	182
Overseas Private Investment Corporation 2/	1000	150
Agricultural Project (Catholic Relief Services)	10	4.2
USIA funded activities 3/	16.1	16.1
Debt Rescheduling 4/	2000	1000
All USG Activities, including SEED Act of 1989	4146	1940

Notes:

1/ Includes EXIM pending and outstanding preliminary commitments to Hungary and Yugoslavia for FY90.

2/ Value of OPIC political risk guarantees.

3/ Includes USIA's Eastern Europe base-line cultural and exchange program of $10 million plus $6.1 million of reallocated USIA funds for FY90.

4/ For FY 90, includes U.S. share of $8.5 billion debt rescheduled in Paris Club for 1990; for 1991-92, U.S. share of additional reschedulings estimated at $1 billion.

Mr. **Eagleburger**. The second point I would make is we now have in Eastern Europe a different kind of policy of differentiation. Now what we are looking at and the ways in which, the conditions under which we will support these countries, depend upon: one, have they removed the Communist Party as the only party permitted to operate; second, are they moving toward multiparty political democracy; third, are they in fact moving toward free and open market economies; and are they doing their best to adhere to common standards on human rights?

And there is a difference of approach in each of the countries in Eastern Europe. Clearly at this point you can put Czechoslovakia, Poland, and Hungary, Hungary assuming that the election goes well in the next few days and I think it will, into one category. They have met the basic standards and we are providing assistance.

The German Democratic Republic [GDR] has had an election. Now we have to see what develops thereafter. But the GDR is moving in this direction.

We are prepared at this point to provide humanitarian assistance to Romania and to Bulgaria, but they have not met the conditions. If they do, we want them to be able to move beyond humanitarian assistance to other kinds of help.

But fundamental to our approach to the question of assisting Eastern Europe is that we want to involve the private sector of the United States as much as we can, and we are doing that through the enterprise funds, we are doing that through encouraging by OPIC investment programs in these countries. And hopefully we will soon be seeing that the Export-Import Bank is able to move to a more active role in Eastern Europe in general and Poland in particular. Mr. Macomber, I know, is looking at that subject.

The whole effort—not the whole effort, but a substantial part of the effort, is to engage the private sector of the United States in the reform of these economies as quickly and as deeply as we can.

There has been some real progress there, including a General Electric $400 million investment, and a joint venture investment in Hungary over the course of the last several months. This is not insignificant.

We have a caution that comes out of an experience of the 1970's, which is that simply to pump money into these countries government-to-government, without some assurance that the money will be used to change the economic structures of these countries, simply puts off the day at which they begin to make the changes that are absolutely essential.

The Czechoslovaks have not asked for money for economic assistance at this stage. What they say they need is something you talked about, which is assistance in elections, assistance in creating political parties. We are going to give them that assistance, assuming that the bill which is now before the Congress is passed, which authorizes us to include Czechoslovakia and the rest of Eastern Europe in our assistance efforts if they meet the conditions I earlier outlined.

What is going on in Eastern Europe is absolutely critical to the security interests of the United States. It is absolutely essential to global stability in the coming years. I would not debate that at all.

Our effort there was fundamental to getting the Europeans engaged. Our effort with regard to establishing the stabilization fund for Poland was absolutely essential to bringing others along. It is a cooperative exercise in Europe.

We need to make sure that the Europeans particularly, but the Japanese as well, contribute substantially to the effort of trying to help change in Eastern Europe. I would argue that we are doing what is necessary, we are spending the kind of money that is necessary.

It is not often I would be up here telling you that I want to spend less money than the Congress, but our view is we are spending enough. I would not debate with you for one moment that it is critical to the future interests of the United States.

Where I do have a disagreement is with regard to Panama and Nicaragua and their relationship to our security. Senator, we spent the better part of the last 10 years tearing ourselves apart over the question of how to deal with the Sandinistas in Nicaragua. That by itself tells me that it is not the kind of issue we want to have to face again if what is happening now in Nicaragua can be—if roots can be put down, if a democratic Nicaragua can be encouraged, it is important.

I would suggest as well that the geographic propinquity in both Panama and Nicaragua is another kind of an issue that makes them important to our long-term security interests. This is not to deny at all that Europe is also important. But instability in Central America has an impact on us, it has an impact on the neighbors in Central America. It has tied us into knots for the course of the last decade trying to deal with it.

We now have a real chance in both of these countries, by the expenditure of a fairly substantial amount of money—I do not argue it; I would argue that the money, however, directly necessary for those two countries is, in fact, larger than the direct money necessary in Eastern Europe.

I am also hopeful that after one large expenditure with regard to Panama we do not have to come back to you a second time.

My issue is not over whether Europe is important. There is an issue over how much money we are spending, I recognize that. But yes, Europe is important. I believe that Central America, Panama, Nicaragua, and everything that will develop there in the course of the next decade is also terribly important to our interests, that is all.

UNITED STATES OBSESSION WITH NICARAGUA

Senator **Leahy**. Mr. Secretary, I think historians and others will write books and debate about our obsession, our decade-long obsession with Nicaragua, for at least another decade. We have seen a great deal of problems come out of that.

We only have to look down the street at the special prosecutor and defense attorneys going at it in another one of the trials right here in the District of Columbia involving the Iran-Contra issue. I am not going to debate or reopen that. That is a matter that we will let the courts worry about.

But we had that obsession with this little tiny country. And I worry very much that that decade-long obsession diverted the United States from what are some of our real concerns worldwide, from the area of nuclear arms control to the fact that we are becoming very much a second-rate nation in our ability to compete worldwide economically in innovation, trade, and so forth.

We are the largest debtor nation in the world. We have an inexcusably high trade deficit today. We have lost millions of jobs in the United States. Because of that, we have an overreliance on imported oil, and on and on. Those are things that affect the security of the United States far more than the little country of Nicaragua?

I am only concerned that we do not perpetuate what I think has been a mistaken amount of attention by both Democrats and Republicans over the last 10 years. Now we are talking about giving Nicaragua, with 3 million people, over 6 months, more than one-half of what we gave sub-Saharan Africa all of last year with 500 million people.

ACCOUNTING FOR THE MONEY TO NICARAGUA

That ratio is skewed, I think. Look what happened when we tried to give, what was it, $1 or $2 million to Nicaragua during the elections there. The infrastructure fell apart just trying to get that relatively small amount of money in there. They could not find a way of getting it in, to get the money distributed through the banking system, and keep an accounting of where it was going.

Yet we are talking about not $1 or $2 million, we are talking about sending down $300 million. We do not have an AID mission in Nicaragua. It has been closed down for a number of years. Probably it is going to open up now.

The amount of $300 million is two-thirds of what my whole State will spend in State government in a year. How do I go back to Vermont and tell them: Oh, sure, we will send that money down; do not worry, it will be all accounted for, it will all be well spent, there will be no waste, there will be no fraud. None of us could sit here and say that with a straight face today.

I am just trying to express my concerns. I am not really asking a question. But are we, the United States, even going to have an infrastructure down there to determine where that money is going and to ensure that the Chamorro government will also be able to determine where it is going?

Mr. EAGLEBURGER. We will certainly be working in cooperation with the Chamorro government on where it is going and how it is spent and the rate at which it is spent. And again, Senator, a great part of what we are asking for with regard to Nicaragua is fundamentally to put that economy back in condition to begin to be productive.

A great deal of it, or parts of it, have to do with putting farmers back, putting Contras back on the farm with seed and with some commitment to stay there and produce, the whole list of things we are trying to do in Nicaragua, it seems to me, admitting that there are going to be serious problems with an infrastructure and an economy that has been put into disastrous shape over the course of the last several years. But our firm belief is that we will be able to manage that process in cooperation with the Chamorro government in ways that will assure—I cannot say that there will be no fraud, but that will assure your constituents in Vermont that the money is well spent and productively spent.

I do not know how else to answer the question.

Senator **Leahy**. I would hope a lot of very wealthy Nicaraguans now living outside the country will show the kind of patriotism and dedication to their own country to come back in, bring their money back in there, and invest.

Mr. **Eagleburger**. We agree with that.

Senator **Leahy**. Senator Kasten.

Senator **Kasten**. Mr. Chairman, thank you.

IMPEDIMENTS TO PRIVATE ENTERPRISE IN NICARAGUA

Secretary Robson, can we assume that before any assistance is provided to Nicaragua through this supplemental that the necessary changes are made in Nicaraguan law and also in Nicaraguan practice, which currently frustrate the operation of private enterprise?

They have got a number of impediments, and I guess I agree with the statement that the Secretary—I just gave you a promotion—that the chairman just made with regard to private enterprise and attracting investment. But there are frustrations right now with regard to private enterprise. How are we going to know that there are these kinds of opportunities?

What kind of changes in law and/or practices are you going to be looking toward?

Mr. **Robson**. Let me address myself to the segment of the request that deals essentially with the private sector. Some of the assistance, as Secretary Eagleburger has pointed out, is directed to the agricultural community, repatriation and demobilization.

But the answer is we have designed this and contemplate it being administered in a way that follows structural changes in the economy, privatization, the reduction of the kind of governmental controls that are typical of a socialist, in this case a Marxist, economic system. And we would expect that those would be areas of change that we would be scrutinizing very carefully to see that the environment is created that, one, allows the private sector to grow within Nicaragua, and second, as the chairman just pointed out, brings back the money that has flown away from there so that it becomes part of the capital structure of Nicaragua.

It is an issue that is of major concern to us in Treasury and to the Government as a whole. Certainly underlying all of the assistance that we have given around the world in these past years has been the theme of converting command economies to free market economies, and that certainly will not not be the case in Nicaragua.

Senator **Kasten**. Secretary Eagleburger?

Mr. **Eagleburger**. Senator, let me make clear just so that we are not misstating. I do not think we can promise you that none of the money flows until such time as all of these laws have been changed. Obviously, the legislature is going to have to meet and change the laws.

Some of this money certainly we would hope could be moved to support Mrs. Chamorro in the early stages, before the laws have been changed. But that is not to argue with your fundamental point that there are going to have to be a substantial number of changes in their laws to attract private capital.

But I would not want to wait until the legislative process is over before we put anything in.

AID TO EASTERN EUROPE

Senator **Kasten**. Let me go back to a question raised by the chairman, with whom I agree that we ought to have a more coordinated effort in Eastern Europe. I hope that between now and when this bill reaches the floor, Mr. Secretary, we will have a more detailed discussion of the ongoing work.

Roughly speaking, we have appropriated $530 million. Probably $15 million of that has been spent, simply because there is no infrastructure and we do not know how to spend it in Eastern Europe right now. When you look at the work of the National Endowment for Democracy, OPIC, the Eximbank, private sector, plus direct aid, we have all these different programs going.

In order for us to argue that we are doing as well as we can in Eastern Europe, I think it is important that we coordinate our efforts.

EMERGENCY NATURE OF SUPPLEMENTAL

You and I hope that by the 5th or the 6th of April, this legislation will be signed into law. That means we have 3 weeks.

I want to support this request, and I think we need to stress its emergency nature and the importance of timing.

There is a lot going on. Whether we finish the clean air bill between now and Easter is an open question. But I am hopeful that the House at least can move this bill.

I simply ask that you and the President give this top priority.

It will do no good if we are still sitting here on the 4th of July arguing about preparing for the next planting season. I am concerned that the emergency nature of this is not yet understood, and I would ask you to respond to that.

Mr. **Eagleburger**. Well, first of all let me undertake at this point to give you for the record a detailed description of why we think the timing is important on all of this. But let me ask you in the meantime please to keep this in mind. With regard—well, with both countries, start with an assumption I make, at least, that in both the case of the Endara government and the Chamorro government we are seeing the beginnings of—and this is also true in Eastern Europe—we are seeing the beginnings of a democratic government in countries that are not familiar with it, where it is not the tradition.

And early success, early ability to begin to deal with some of the pressures that are inevitably going to come with the institution of democracy in those two countries, is going to be fundamental to whether Mr. Endara and Mrs. Chamorro are going to be able to make it.

In the Panama case, one of the critical problems they have already faced, and that is putting tremendous pressure on the government, is unemployment. If you look through the programs that we have described that we want in Panama, you will see that most of them, with the exception of the IFI's, have a major employment component in them. What we are trying to do is put people back to work.

That is emergency, if you will, to me not only in terms of the livelihood of the people involved, but in terms of whether or not Mr. Endara and his government are going to be able to develop to maintain the kind of enthusiastic political support they had when they came into office.

Mrs. Chamorro faces some of the same psychological and more than psychological problems, and to the degree we can demonstrate to her, to her government, and to the people of Nicaragua that the United States is committed to seeing that she is successful or that Endara is successful, I think that has an emergency quality to it by itself.

Even if what we are saying is some of this money is going to be spent on education and that is a longer-term payout, after having spent 10 years being educated in Nicaraguan schools in Marxism, the sooner we get turning that around and changing that the better we are. Those are just examples.

What I will try to do is go back and put on a piece of paper why we think these issues have an emergency character to them, as long, sir, as you understand that in some of the cases there is a psychological component here which I cannot describe in dollars and cents, but is nevertheless important to both of those new governments, just as in Eastern Europe our ability, when the Prime Minister of Poland comes here this afternoon, Mr. Mazowiecki, that when he comes we can demonstrate to the people of Poland and to his government and to Solidarity that we are anxious to help them succeed.

In that sense, Eastern Europe and Panama and Nicaragua have the same quality, and the urgency to some degree depends upon the psychological statement we are trying to make.

[Classified insert is filed with subcommittee.]

Senator KASTEN. Mr. Secretary, I look forward to working with you.

Mr. Chairman, thank you.

Senator LEAHY. Thank you, Bob.

I might say, Mr. Secretary, I have a number of questions I will submit for the record.

Senator LEAHY. I would hope that you and the administration realize the fact that we have scheduled this hearing the first day we were back in town which shows that both Senator Kasten and I are committed to moving quickly on this package.

I would note that there will be some changes, as I am sure you would expect. There will be issues raised on the Contras. There will be issues raised about central Europe in this, and there will be specific questions raised as to where any money will go, as well as the refugee and other issues that we have already discussed.

I do not intend this to be a domestic Christmas tree bill. There are parts of the so-called peace dividend that for our national security should be going in foreign relations areas, just as there are parts of the peace dividend that, also for our national and domestic security, should be going right here in the United States to improve some of the areas that need improvement.

But I will pledge myself to work with you, with the administration, in trying to go forward with this. We will try to find those areas where we can agree and move with those. If there are areas where we disagree, well, we will just bring it to a vote and see which way it goes.

I think you understand my concerns about so much money going into Central America, where there are so many great needs in central Europe. And I will look for that chart that you talked about, and we will continue to work on this package.

And I also applaud Senator Kasten for the comments and concerns he raised this morning, and we will work together on those.

Thank you.

Mr. **EAGLEBURGER**. Thank you so much for having this so fast.

Senator **LEAHY**. And thank you, Mr. Secretary, also.

Mr. **EAGLEBURGER**. And also for the gentility of the hearing.

Senator **LEAHY**. What is that?

Mr. **EAGLEBURGER**. And also for the gentility of the hearing.

Senator **LEAHY**. I suspect that was probably because you psyched me out by wearing that green sweater.

ADDITIONAL COMMITTEE QUESTIONS

Thank you very much.

There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Departments for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

OFFSETS

SENATOR LEAHY: The President's Supplemental messages both indicate that the $870 million for Panama, Nicaragua, and refugees is to be offset from the FY1990 defense appropriation.

A large part of the offsets offered by the President, the deferrals, are unacceptable to the Appropriations and Budget Committees.

But before we can report a bill, this subcommittee has to be assured that acceptable offsets have been agreed which will not subject this Supplemental to a Budget Act point of order on the Floor.

What is the status of the negotiations to work out mutally acceptable offsets?

MR. EAGLEBURGER: The Administration and the appropriate committees have subsequently identified recissions of $1.79 billion in budget authority and $596 million in outlays from Department of Defense appropriations to offset fully the supplemental for Panama, Nicaragua, and refugee funding.

FUNDING LEVEL

SENATOR LEAHY: If Congress were to reduce aid to Panama in this Supplemental substantially, where would you want the cuts to come?

Across all the programs?

Or would you prefer to cut back or eliminate entirely certain parts?

MR. EAGLEBURGER: We will be severely disappointed if we do not obtain the complete package requested by the President. The Administration's request is the minimum considered necessary to "jump start" the Panamanian economy. Providing too little too late may keep Panama limping along, but then require another major infusion next year just to keep it going! Such a policy would be penny wise and pound foolish. Thus I do not believe it would be useful to discuss a possible reduction. Should Congress reduce the President's request, how the resulting amount would be reallocated would depend on many factors. It would do little good for me to speculate on a hypothetical situation. Let me stress, however, that our aim is to use the funds as quickly as possible, and to do so in a manner that will have maximum stimulative effect on the economy. To ensure our ability to do so in response to Panama's priorities, the legislation must give us flexibility.

PRIORITIES: EASTERN EUROPE

SENATOR LEAHY: According to the March 21 New York Times, the members of the Board of the Private Enterprise Fund have finally been named, four months after the legislation was enacted. Is it correct to say that, as of today, March 21, no U.S. aid has gone through the President's Private Enterprise Fund to assist in Poland and Hungary yet?

MR. EAGLEBURGER: It is true that no money from SEED legislation has gone to Poland or Hungary through the President's Private Enterprise Fund as yet. However, AID has undertaken pre-implementation actions to facilitate quick start-up of the enterprise funds. AID is also providing assistance to the governmental privatization efforts. On March 30, the President as well as State, AID, NSC, CEA, Treasury, OPIC, EXIM and TDP met with the combined boards. We expect an initial grant will be given to the boards to begin functioning by mid-April, with operations beginning in mid-May.

SENATOR LEAHY: Is it true the Administration has diverted $6 million from the Poland Private Enterprise Fund to support democratic transitions in other Eastern European countries?

MR. EAGLEBURGER: The Panama bill authorized the Administration to transfer up to $10 million in FY'90 ESF funds to support democratic transitions in Eastern Europe. In accordance with this legislation, AID has sent forward a Congressional notification transferring $6 million from the Polish-American Enterprise Fund to support elections in Eastern Europe. The Administration anticipates replenishing this money in FY 1991.

SENATOR LEAHY: Is it true that AID, as of March 21, has not yet begun to implement the $200 million Trade Credit Investment Program Congress passed last November to help promote US trade with Eastern Europe?

MR. EAGLEBURGER: No funds were appropriated last fall for the this purpose. However, AID has now established the reserve fund necessary for the Polish TCIP program. EXIM is currently on cover for short-term transaction for Poland. Utilization of the TCIP program will depend on the demand of private Polish businessmen.

PANAMA: PRIVATE SECTOR REVITALIZATION

SENATOR LEAHY: You are asking for $185 million to give to the Central Bank of Panama to make loans to businesses in Panama. What is the justification for $185 million in cash going into the Panamanian banking system before we know it is cleaned up from drug laundering and control by the drug lords?

MR. EAGLEBURGER: The basic aim of the package of United States assistance to Panama is to help "jump-start" a potentially sound economy that was repressed and drained financially under the Noriega regime. We believe infusion of assistance will get the private sector back on its feet and people back to work. The most efficient means of achieving this basic aim is by channelling funds to private businesses through local banks. To avoid abuse of this program, we will institute rigorous financial checks and auditing procedures. The Panamanian Government and local bankers understand that their future as an international financial center depends on rooting out money-laundering. The new Government of Panama has taken action to clean up the banking system. In December, the GOP froze over 200 bank accounts believed to have been used for money-laundering. The Panamanian Attorney General is now in the process of providing the information obtained about these accounts for use in U.S. investigations. Panama has instituted by decree controls on cash transactions of over $10,000 and is cooperating closely with anti-narcotics authorities to clamp down on the drug scourge.

SENATOR LEAHY: How can the American people have any confidence their money is not being misused when it disappears into Panamanian banks?

MR. EAGLEBURGER: We propose to use the private sector revitalization program to establish a rediscount facility. Because the funds will be repaid to the rediscount facility after a specified period, the cash-flow will be monitored and breaches in the program quickly investigated and rectified. The returned funds will be available to re-lend to small- and medium-sized enterprises and other productive uses. A blue-chip international accounting firm will monitor the financial standards and audit the internal accounting of the rediscount facility and the use of reflows.

SENATOR LEAHY: Where do you stand in working with the new Government in reforming the Panamanian banking system--especially ways to stop money-laundering?

MR. EAGLEBURGER: We have had extensive discussions with the Endara government on the past use of the banking system as a money-laundering center, on the need for reform, and on the role of Panama's bank secrecy laws in this. It is clear from these frank discussions that Panamanian government and banking officials appreciate the extent to which their banks had been used to launder drug money. They have already instituted by decree controls on cash transactions over $10,000. This is a priority issue for the Endara government. U.S. and Panamanian officials are currently discussing several agreements on exchange of information and law enforcement, including an agreement establishing formal mechanisms for obtaining evidence--such as bank records--needed on criminal investigations and prosecutions involving money-laundering.

SENATOR LEAHY: Are you going to get a report to Congress on Panama's banks and eliminating money-laundering before we act on this Supplemental?

MR. EAGLEBURGER: We intend to follow up with our report to Congress on money-laundering by April 15.

SENATOR LEAHY: What are the Panamanians themselves doing to revive the private sector? Is any of the hundreds of millions of dollars of flight capital returning? Are wealthy Panamanians coming back to the country?

MR. EAGLEBURGER: The stronger Panamanian firms are drawing on their own funds to restore normal operations. Some 85 percent of these major firms have re-opened their doors. The Panamanian Government is examining a number of options to improve business conditions using the limited funds it can mobilize on its own through improvements in the financial sector and encouragement of personal savings. To achieve sustained economic growth, small- and medium-sized businesses will need resources to rehire employees and invest in stock and equipment. Deposits in Panamanian banks increased for the first time in three years in early January and have continued to increase since. Stronger firms are repatriating funds from abroad to resume operations and individuals are re-depositing previously-withheld funds thanks in part to restored confidence in the reformed system.

PANAMA: PUBLIC SECTOR INVESTMENT PROGRAM

SENATOR LEAHY: You are asking for $140 million for a "Public Sector Investment Program" in Panama. As I understand it, this is for a kind of "WPA" job creation effort. The Government will hire or contract companies to hire urban unemployed to do low-skilled labor projects. Out of over 130,000 unemployed, how many jobs will $140 million create, and for how long?

MR. EAGLEBURGER: The goal of the "Public Sector Investment Program" is to rehabilitate and rebuild badly deteriorated social and economic infrastructure via the new Government's investment budget. The public sector was drained during the last years of the Noriega regime. Thus, while these investments will yield the additional benefit of generating substantial employment, the program is not intended to be a "WPA" job creation effort. Nevertheless, we do expect that 10,000 to 20,000 jobs may be created by the private contractors who will carry out the infrastructure works.

SENATOR LEAHY: How are you going to keep this from becoming another featherbedding operation, like so many public works programs in the Third World? What makes you think the Panamanians will stop this program after a few months, when jobs are still not available in the economy?

MR. EAGLEBURGER: This public investment program will be subject to strong AID oversight and internal controls to minimize the possibility of irregularities in its implementation. Strict bidding and subcontracting procedures will ensure resources are disbursed efficiently. This assistance will be non-recurring, fast-disbursing and policy-based, meaning that we will insist on sound fiscal policies in return for investment support. The program will be administered by the GOP and non-governmental organizations, with most work contracted to private construction companies. This will enhance the private sector's productivity and promote private sector expansion and permanent job-creation.

SENATOR LEAHY: What projects will be financed? What will be the funding management mechanisms? What voice will the United States have in determining how the funds are spent and in monitoring their use? What are the arrangements to assure accountability and control? Will AID/IG have any role in auditing this program?

MR. EAGLEBURGER: Potential projects include investments to restore electrical generation, water and sewerage systems, schools and health clinics, wells and latrines in the rural areas, and roads. Such projects will support private sector-led growth and improve the daily lives of the people most adversely affected in recent years. These funds will be used to support the Panamanian Government's public investment budget. AID will monitor their use by consulting regularly with Panamanian budget officials. The new Panamanian government has strengthened the budget process and already presented a disciplined budget for 1990. We have confidence in the officials now responsible for the budget and intend to consult closely with them. AID/IG, largely through non-federal audit contracts with major public accounting firms, will review all aspects of the Panamanian program.

PANAMA: SEIZED WEAPONS

SENATOR LEAHY: According to a story in the March 20 edition of the New York Times, the Panamanian Government is demanding compensation for the thousands of weapons seized by US troops during the invasion. What is your reaction to that demand?

MR. EAGLEBURGER: The Government of Panama faces an awesome series of economic problems as a result of the thievery and mismanagement of the former regime. It is doing its best to respond to the many genuine cases of hardship brought to its attention. However, its ability to act is severely strained by its lack of financial resources. It is looking, therefore, at all possible means of obtaining more resources. In this context, some Panamanian government officials have suggested that the US compensate Panama in some fashion for the weapons that the US armed forces seized. Our initial reaction to such a concept is negative. The Government of Panama has not presented a formal diplomatic request for payment, nor a legal justification for such payment.

NICARAGUA: CURRENT ECONOMIC SITUATION

SENATOR LEAHY: Please provide the following information about Nicaragua:
What is the rate of inflation today?

MR. EAGLEBURGER: Based on a recent U.S. Embassy marketbasket survey, we estimate that inflation is running at approximately 300 percent over the last twelve months. This calculation takes into account a major devaluation of the Cordoba in June 1989.

SENATOR LEAHY: The rate of unemployment?

MR. EAGLEBURGER: Unemployment currently is between 27 and 33 percent. This does not account for the sizable number of underemployed or the informal sector which is significant in this economy with an important agricultural sector.

SENATOR LEAHY: The per capita income?

MR. EAGLEBURGER: We estimate that per capita income currently is approximately $375. This does not account for in-kind income, barter, etc. which may be significant, especially in the agricultural sector.

SENATOR LEAHY: What was it in 1980?

MR. EAGLEBURGER: IN 1980, Per capita income was $835, according to Inter-American Developmment Bank annual reports.

SENATOR LEAHY: How much economic aid is Nicaragua receiving from the Soviets?

MR. EAGLEBURGER: In 1988, Nicaragua received almost $700 million in both economic and military assistance from the Soviet Union.

SENATOR LEAHY: What is Nicaragua's foreign debt, and its composition?

MR. EAGLEBURGER: In mid-1989, external medium and long-term public debt was approximately $7.3 billion. Composition of outstanding external debt is: central government - 72 percent; central bank - 23 percent; and the remaining portion held by public enterprises. Debt owed to foreign governments was 66 percent of the total in 1988 and the amount owed to financial institutions was 19 percent of total debt.

SENATOR LEAHY: What are its total arrears of all types?

MR. EAGLEBURGER: External debt arrears, including commercial debt arrears rose to $2.6 billion by the end of 1988, of which $1.4 billion represented principal payments in arrears. More than 45 percent of total arrears were to bilateral creditors, 38 percent to financial institutions and 10 percent to multilateral institutions. Nicaragua rescheduled debt of $1.4 billion in 1984-88, of which $240 million was rescheduled in 1988. Arrears to IFIs currently include $180.2 million to the World Bank Group and $54 million to the Inter-American Development Bank. There are no arrears to the International Monetary Fund.

SENATOR LEAHY: What is the Government's projected budget?

MR. EAGLEBURGER: Mrs. Chamorro's economic advisors have a clear concept of what their task is in budget reform for the central government. The basic principles of the budget reform are the following:

1. Freeze the level of real expenditure of the government while guaranteeing capable public employees

their jobs, and eliminating phantom jobs and excessive employment.
2. Establish a clear and fair salary policy eliminating salary padding.
3. Quickly redirect government expenses toward public works and the improvement of social services, particularly in health and education.
4. Establish a philosophy of austerity for government expenses, eliminating special privileges.
5. Eliminate any type of subsidy which is not essential.
After inauguration on April 25th, the Chamorro Government will be able to quantify and more accurately design their budget revenues and expenditures. It is clear, however, that they will inherit a serious budget problem from the Sandinistas. The central government deficit amounted to approximately $ 375 million in 1988 or roughly 25 percent of GDP. (This does not include unpaid interest of the non-financial public sector nor Central Bank losses.) The Sandinistas have been able to fund this deficit primarily through foreign grants.

SENATOR LEAHY: What are the Government's revenue expectations?

MR. EAGLEBURGER: The Chamorro Government will introduce tax reform with four main objectives:
1. Reduce the excessive direct taxation on the low income sector.
2. Encourage efficiency and international competitiveness of production.
3. Gradually reduce the sharp inequalities in the existing tax policies.
4. Simplify the tax system to ease its administration.

The Chamorro Government expects that tax revenue will increase because:
1. Quasi-state companies, private enterprises and their subsidiaries, now controlled by the FSLM party and members, will become paying entities.
2. There will be a decrease in tax evasion as a result of a more reasonable tax law and,
3. Popular enthusiasm and moral support for the new Government will create a greater tax base. The tax base will also increase as the economy recovers.
Again, actual revenue data can only be established once the Chamorro Government takes office, but it is clear they are inheriting serious problems. Since 1984, central government revenue decreased by more than 15 percentage points to 20 percent of GDP in 1988. In 1989 the decline in government revenue continued at a lesser rate, primarily because of drops in tax revenue due to increasing arrears on tax payments, liberal exemptions, and failure to adjust tax rates in a timely manner.

SENATOR LEAHY: Budget deficit?

MR. EAGLEBURGER: In 1988, the central government deficit amounted to approximately $ 375 million or roughly 25 percent of GDP. (This does not include unpaid interest of the non-financial public sector nor Central Bank losses.) The Sandinistas were able to finance this deficit primarily through foreign grants. The Chamorro Government has a good concept of what budget reforms are required, but critical to their addressing the budget deficit problem will be return of business confidence and external assistance from the United States, other donors and the International Financial Institutions.

SENATOR LEAHY: What levels of assistance have been committed or pledged by international financial or development assistance institutions in fiscal 1990?

Once the new Government is able to clear arrears with the International Financial Institutions, they could expect to get approximately $40 million from an IMF standby program. The last IMF standby program was in 1979 for about $44 million. Since there are no arrears to the IMF, the net current flow would be positive with the only outflow being $3 to 4 million in IMF debt service. Because the Nicaraguan programs for the World Bank and the Inter-American Development Bank (IDB) have been suspended for some time, it will take time to redesign and develop loan proposals. Therefore it is very difficult to estimate how much in new loans will be available in 1990 and 1991. If a strong enough economic framework is developed, substantial fast disbursing resources could be provided by both the World Bank and the IDB.

NICARAGUA: CURRENT ECONOMIC SITUATION

SENATOR LEAHY: What other countries have said they will give aid to the Chamorro government, and in what amounts?

DEPUTY SECRETARY EAGLEBURGER: The bilateral donor community has reacted very positively to the results of Nicaragua's election and to the political and economic change now in store for that country. A number of countries have provided preliminary indications of aid levels; initial information shows that the European Community, the U.K., both Germanies, Spain, Italy, Denmark, Norway, Sweden, Austria, Switzerland, Canada and Japan are planning to provide a total of approximately $334 million over the next year or so.

The Italian government is planning to host an international donor pledging conference for Nicaragua May 31-June 1. The U.S. will attend this conference, at which time we will likely have a clearer idea of total aid levels.

MRS. CHAMORRO'S CABINET

SENATOR LEAHY: Has Mrs. Chamorro decided who will be in her cabinet? How quickly will the new government be able to get up and running after April 25? What specific plan does the new Administration have for reorganizing the present government structure? How much turnover is anticipated in the government bureaucracy? Does the Chamorro Administration plan significant reductions in public employment and privatization of parastatals?

How rapidly does the new Administration intend to carry out its reorganization plans?

MR. EAGLEBURGER: Mrs. Chamorro has not yet named her cabinet. In their March 27 protocol on transfer of power, UNO and the Sandinistas named transition "subcommittees" for economic planning, foreign aid, agricultural development and reform, industry and commerce, infrastructure, social policy and foreign relations. These committees will begin work immediately, allowing the new government to get a rapid start on its economic recovery program. UNO has said that it will make hiring and firing decisions in the bureaucracy according to efficiency and honesty, not political loyalty. The specifics of reorganization will not be clear for some time, but given UNO's preference for decentralization and private initiative, there will almost certainly be a reduction in the size of the bureaucracy. UNO supports a market economy, and can be expected to privatize many parastatals.

NICARAGUA: AMOUNT OF AID

SENATOR LEAHY: I hear that the Nicaraguans came here asking for $300 million. What specific levels and types of assistance did Mrs. Chamorro's representative request? What economic and financial analyses and justifications did the Nicaraguans offer in support of their request? How is it that you have requested exactly the same amount that the Chamorro advisers requested? Did we agree so completely with their prescription for what is needed? What did they ask for that is not in this request?

DEPUTY SECRETARY EAGLEBURGER: During their visit in Washington, President-elect Chamorro's advisors presented us with their thinking on the most urgent areas of need for assistance. The Nicaraguan representatives had given serious consideration to the problems they will confront and range and types of assistance required, including food aid, agricultural inputs for the April/May planting season, emergency petroleum supplies, and funds for demobilization and repatriation of the Nicaraguan Resistance and refugees. Noting that the Central Bank will be depleted of foreign exchange reserves, they also requested support for liquidity of the banking system to provide for critical private sector imports. The UNO representatives reiterated the overall estimates contained in the UNO Economic Recovery Plan that foreign aid requirements will be at least $500-$600 million per year over the next three years.

The Administration carefully considered the information and requests presented by the Nicaraguan team. The President arrived at a proposal of a $300 million package for Nicaragua based on an analysis of Nicaragua's needs by U.S. experts in economic assistance, and verified by our economic assessment team. Contributions will also be needed from other donors to fully meet Nicaragua's needs.

SENATOR LEAHY: How much money will go directly to the Nicaraguan government? How much of the request will be in the form of cash grants or cash transfers? What capacity does the Government have to manage such a huge input of money at once?

DEPUTY SECRETARY EAGLEBURGER: Of the total $300 million, $178 million will likely be provided in the form of a cash transfer to Nicaragua's Central Bank. Other grants will be made through various sources which may include government ministries, and non-governmental organizations, including private voluntary organizations and specialized private sector organizations such as the Superior Council of the Private Sector. The determination of the most appropriate vehicle will depend upon relative capabilities and priority of needs established during final design and negotiation of the program. Those funds identified for repatriation and resettlement of the Resistance as well as those for refugees, a total of $45 million, will be channelled through appropriate international organizations.

Cash transfer balance of payments assistance will support economic stabilization and reforms. The resources will go for 1) urgently needed petroleum imports, without which the country will face a critical shortage by the end of the month, and, 2) private sector and agricultural inputs such as raw materials, spare parts, intermediate and capital goods. $50 million will be provided as part of a cooperative effort to clear arrearages with international financial institutions, principally the World Bank and the Inter-American Development Bank. We believe the new Government will have the capacity to manage the cash transfer separate account and provision of foreign exchange to private sector importers. We will at the outset establish a system of controls over these resources to insure accountability. This will include a separate account for USG funds which is open for A.I.D. review at all times, a requirement for A.I.D. authorization for use of funds, well defined criteria for eligibility for use of funds, monthly reconciliation of accounts and periodic auditing.

SENATOR LEAHY: How much will go through private voluntary organizations, especially American organizations?

DEPUTY SECRETARY EAGLEBURGER: Given the relative weakness of the government infrastructure, private voluntary organizations (PVOs) are expected to play a role in the program in Nicaragua. This is particularly true in their areas of comparative strength, i.e., feeding programs and rural community outreach in education and health. Several U.S. PVOs have kept an active force in Nicaragua, even over the difficult period of the past several years. There are also a few solid indigenous PVOs such as the Development Foundation which we expect will play a role in emergency private humanitarian activity and activities such as training. We are currently looking to U.S. PVOs for a quick response in the short-run, particularly in the immediate food assistance program and Survival Assistance for Victims of Civil Strife (CASA).

NICARAGUA: USAID MISSION

SENATOR LEAHY: What is the status of our AID mission in Nicaragua? How many staff will there be to manage and monitor how these funds are spent? What specific plans do we have for a U.S. economic, financial and development assistance presence in Nicaragua? How soon will a full-scale USAID mission be established?

DEPUTY SECRETARY EAGLEBURGER: We have not had an A.I.D. Mission in Nicaragua since 1982. With the reopening of relations and the substantial assistance proposal we are moving immediately to establishment an A.I.D. presence. This will ultimately involve about 20 U.S. direct hire staff complemented by 40-50 local hire and contract staff. The staff assigned will reflect sectors of emphasis in the program we have proposed. Staff will bring skills in economics, financial management, financial analysis, program and project development, agriculture, health, education and private enterprise development in addition to the requisite administrative support. We plan to have the Mission up and running with permanent core staff by May and fully staffed by December.

AGRICULTURE

SENATOR LEAHY: I understand the first planting of the year is already underway. Assuming this aid package gets to the President's desk without delay, how much of this aid will you be able to get to farmers in time to make a difference in this planting cycle?

DEPUTY SECRETARY EAGLEBURGER: Clearly, this situation presents us with an enormous challenge. Most of the infrastructure used by the Sandinistas for the distribution of agricultural inputs will remain in the hands of the Sandinista government until Mrs. Chamorro is inaugurated on April 25. This includes many of the "private" distributors which are now at least partially state owned. However, we do expect that the producers' organizations, although weakened, and private inputs distributors can serve as an adequate delivery system for limited immediate impact on the first planting.

We currently have a small A.I.D. team in Nicaragua gathering the information necessary to specify most critical needs and delivery vehicles. Our preliminary estimate is that $5-10 million in seed, fertilizer and basic equipment could be moved in shortly after the inauguration and be in the hands of farmers during the prime of the planting season in May. We are already identifying sources for commodities and where possible will obtain them from the closest source able to move them in quickly.

SENATOR LEAHY: How will you do it if we do not even have an AID mission up and running before the Chamorro Administration takes office on April 25?

DEPUTY SECRETARY EAGLEBURGER: A.I.D. is now working through its staff here in Washington and on temporary assignment in Managua to assess needs, locate commodities and determine adequate distribution mechanisms. As soon as funds are provided we hope to begin to send in longer term personnel to manage the assistance package and shortly thereafter we hope to have a Mission in place. Without a government to work through we will look to the private sector and possibly such groups as growers associations and private voluntary organizations. If necessary, we stand ready to procure the commodities directly in order to have them available for distribution in country.

PRIVATE SECTOR IMPORTS

SENATOR LEAHY: Nicaragua is a country in a state of collapse. Almost nothing works. How are you possibly going to program $73 million in such a short time? How much do you plan to disburse per month? Who will get it and for what? Who will make these decisions and who will implement them? How will you monitor how it gets used?

DEPUTY SECRETARY EAGLEBURGER: The private sector has been decimated by the practices and policies of the Sandinista government. There is a critical need for capital equipment, replacement parts and productive inputs such as raw materials and intermediate goods. The $73 million will provide foreign exchange which the private sector can draw upon in exchange for local currency. Given the long period that the private sector has been without the means to acquire capital goods we anticipate that the $73 million will be utilized in a short period of time. These funds will be placed in a separate account and will be subject to the same controls employed by A.I.D. in other countries for similar balance of payment programs. Also, A.I.D. funds will be used to provide technical assistance to establish a capacity within the Central Bank to monitor eligible transactions. Foreign exchange use priorities will be set by the Chamorro Government according to its development and economic agenda in consultation with A.I.D. Similarly, eligible uses of foreign exchange will be agreed to in advance.

TRANSPORTATION

SENATOR LEAHY: Some of the funds have been designated to restore the Nicaraguan economy through private sector imports. Will any of these funds be used to revitalize the Nicaraguan transportation infrastructure?

DEPUTY SECRETARY EAGLEBURGER: Our conversations to date with the UNO economic team have focussed on essential inputs to reactivate agriculture and industrial production. We expect balance of payments support will go for the import of such goods as fertilizer, farm equipment, capital equipment and raw materials. Transportation infrastructure, also a critical element in restoring normal economic activity is an area that will require further investigation on our part.

SENATOR LEAHY: For example, the number of buses for public transportation has been depleted due to use by the army and cannibalization for parts. Could some of these funds be used to import buses from U.S. suppliers?

DEPUTY SECRETARY EAGLEBURGER: In the context of this first appropriation, it is unlikely that funds would be used for buses. However, we will be examining this questions in more detail and it could be that items such as buses would be included.

To date, UNO economic advisors have not identified buses as among the most critical items needed. However, it is our understanding that the new government intends to encourage private enterprise and cooperatives to be the key element in rehabilitation of the transportation system. This will be a market for U.S. supplies that we at the State Department, at the Commerce Department, and at EximBank will watch closely.

EMERGENCY EMPLOYMENT

SENATOR LEAHY: You plan to spend $10 million. Unemployment is estimated at 27 percent. How many people are without jobs? How many jobs will these funds create? What kind of jobs? Who has the capability to oversee and implement this kind of public works program so that it does not just turn into a slush fund? How quickly can the private sector be expected to start generating employment? How long will a public works program designed to provide temporary employment be necessary?

DEPUTY SECRETARY EAGLEBURGER: Nicaragua has a labor force of about 1.3 million, so 27-30 percent unemployment means approximately 380,000 Nicaraguans are without jobs. While we are still concluding our detailed analysis we would anticipate that as many as 35,000 jobs will be created under these employment generation activities. Most of the projects will utilize unskilled labor for construction and rehabilitation activities and skilled labor such as masons, carpenters, plumbers, electricians etc. These programs will likely be implemented through the Ministry of Public Works working with non-government organizations such as the Chamber of Construction and PVOs. To the maximum extent possible, work would also we contracted out to private firms. The Ministry will also require assistance in establishing appropriate financial controls and non-Federal audit oversight. We expect that private sector construction contractors could begin hiring day laborers within fifteen days of signing a contract for a particular work project. We plan to identify, bid and award contracts over a staggered time period with the first contracts awarded within 30 - 60 days after the signing of the bilateral grant agreement. Individual work projects will last no more than 3 months each. We are hopeful that the private sector will begin generating new employment within a few months after the new government assumes office, and should increase substantially in 1991 and beyond.

MEDICAL ASSISTANCE

SENATOR LEAHY: How many clinics and hospitals were destroyed in the war and need to be rebuilt? How much will be available for that?

DEPUTY SECRETARY EAGLEBURGER: Much of Nicaragua's infrastructure, including health posts and hospitals have been destroyed. We understand from reports of the Pan American Health Organization that there has been a reduction in the number of beds from 1.7 per 1,000 persons in 1980 to 1.4 per 1,000 in 1988. We also know that nongovernmental organizations have been active in establishing clinics in rural areas that the Nicaraguan Government was no longer serving. The Inter-American Development Bank (IDB) and the World Bank often take a leading role in infrastructure building in health and other areas. We understand that both the World Bank and the IDB are planning to send teams to Nicaragua.

SENATOR LEAHY: How many people were injured in the war and need immediate medical attention, like amputees? How much of these funds will be available for them? Will those funds be available to all injured Nicaraguans, including combatants -- Sandinista soldiers and Contras? Who will administer this aid -- the government, private organizations?

DEPUTY SECRETARY EAGLEBURGER: Exact figures of this nature are not available. A report from UNICEF provides a quite high estimate that as many as 175,000 children in Nicaragua are disabled. The Nicaraguan Ministry of Health estimate that war-related injuries have been the cause of 10-15 percent of deaths in recent years.

The U.S. Government will make immediately available $4 million in funds for Survival Assistance for Civilian Victims of Civil Strife in Central America (CASA). We are requesting amendment to the authority to administer these funds to extend to all Nicaraguans. The Administration's aid request also includes an additional $4 million in medical assistance. This will provide for immediate assistance for procurement of pharmaceuticals and basic medical supplies. The package would respond in part to the emergency medical needs of those victimized by the years of civil strife.

SENATOR LEAHY: I have heard reports of severe malnutrition. What is the situation--how many people are in need of emergency food and in what regions of the country? Who will deliver and distribute this food?

DEPUTY SECRETARY EAGLEBURGER: According to a March 1990 UNICEF report, more than half of all children under five years of age suffer severe or moderate malnutrition and 45 percent of children who died were severely malnourished. However, recent studies indicate that the malnutrition problem is not as serious as UNICEF has stated, with approximately 33 percent of children under 5 years of age suffering from stunting (short height-for-age) or longer term malnutrition.

Among the factors that may have contributed to the malnutrition include the armed conflict, the economic crisis, the reduction of land used for growing basic foodstuffs, and the decrease in family purchasing power. The deterioration of infrastructure has also impeded food production.

Under immediate economic aid the U.S. Government will provide $13 million in PL 480 food assistance. Much of the food provided under this assistance will be distributed by private voluntary organizations. The provision of $30 million in emergency aid requested by the president for agricultural inputs to meet the needs of the upcoming planting season, will help increase the acreage of basic foodstuffs under cultivation in Nicaragua as well as the acreage of cash crops that will enhance family incomes.

NICARAGUA: SPECIFIC AID REQUESTS: PETROLEUM

SENATOR LEAHY: In addition to the $25 million for petroleum supplies, I understand you are seeking additional supplies from Mexico and Venezuela. What has been those countries' response?

MR. EAGLEBURGER: We understand that President-Elect Chamorro has discussed the question of additional oil with the Mexican and Venezuelan governments. As a result, Nicaragua should receive two petroleum shipments from Venezuela at end-April and in mid-May. Mexico's President Salinas has also said publicly that he approves of oil sales to Nicaragua subject to renegotiation of Nicaragua's oil debt to Mexico.

SENATOR LEAHY: Should we expect to supply Nicaragua's oil needs for the indefinite future? What about the Soviets--do you have any idea if they will continue to supply Nicaragua with oil?

MR. EAGLEBURGER: The Soviets have already supplied all the oil called for this year in their agreement with Nicaragua. The status of future Soviet shipments is uncertain. With the drying up of Soviets and other East bloc sources, Nicaragua oil stocks will be exhausted only a few weeks after President-Elect Chamorro's inauguration. The purpose of our $25 million to finance petroleum supplies is to help meet this emergency need as well as assist the devastated Nicaragua economy to get back on its feet as quickly as possible.

NICARAGUA: SPECIFIC AID REQUESTS: PRIVATE SECTOR IMPORTS

SENATOR LEAHY: Unless we are to finance consumer goods, which I assume you do not mean to do, what are the imports you have in mind?

MR. EAGLEBURGER: The Administration proposes $128 million for assisting the Chamorro Government and the private sector in restoring the productive capacity of the Nicaraguan economy by financing imports which are crucial to restoring productive enterprises. These imports will include agricultural equipment, spare parts, fertilizer and other inputs needed to restore the agriculture sector; petroleum and oil products; and raw materials, equipment, intermediate goods and spare parts to rehabilitate existing facilities and stimulate new productive enterprise in the industrial and agricultural sectors. After the Chamorro Government takes power on April 25th and it begins implementing its economic program, other needs may arise. Consumer goods imports are not provided for as a part of this assistance package, but we do not want to limit our flexibility to respond to a future emergency shortage of consumer goods such as foodstuffs.

NICARAGUA: ARREARS TO THE MULTILATERAL DEVELOPMENT BANKS

SENATOR LEAHY: Nicaragua's arrears to the World Bank and Inter-American Development Bank total about $234 million. You are proposing $50 million to help pay those arrears. Who is going to pay the balance? Have any other countries made actual commitments? Can Nicaragua contribute anything from its own resources? What happens if you cannot raise the balance? Will Nicaragua postpone the arrears problem until it can deal with more urgent problems of getting the economy on its feet?

MR. EAGLEBURGER: Nicaragua's economic reform program must be based on a sound macroeconomic framework and support from the international financial institutions. The traditional means of ensuring sound policies and consistent IFI support is to negotiate a program with the IMF. Any U.S. assistance for arrears-clearing will depend on the existence of a sound program. In addition, any U.S. assistance for arrears-clearing will be part of a multilateral effort. We have had discussions with a number of countries interested in supporting economic reform in Nicaragua--such as Japan, the United Kingdom, the Nordics, and Germany. Until an adequate macroeconomic framework is developed, however, international support for clearing arrears can be expected to remain soft. The Nicaraguan Government has announced that Italy will host a donors' conference in late May or early June to mobilize some of the immediate financial support it needs. Any arrears-clearing process will likely require that Nicaragua mobilize substantial additional resources earmarked to address its MDB arrears.

SENATOR LEAHY: Assuming Nicaragua pays its arrears, it also has to pay this year's dues to the MDB's to qualify for new loans? How much will have to be paid to remain current next year? How much would that be and where will that money come from? If it does qualify for new loans, how much would they get in new MDB loans this year? Next year?

MR. EAGLEBURGER: As of January 1990, Nicaragua had $180.2 million in arrears with the World Bank and $54 million in arrears with the Inter-American Development Bank (IDB). Nicaragua has no arrears with the IMF. During 1990, Nicaragua will owe the World Bank Group $27.8 million and the IDB $54.1 million in additional debt service payments. Under current arrears policies, countries may not have arrears overdue by more than 75 days for the World Bank and 30 days for the IDB to have new loans approved. Because the Nicaraguan programs for both institutions have been suspended for some time, it will take time to redesign and develop loan proposals. Therefore it is very difficult to estimate how much in new loans will be available in 1990 and 1991. If a sufficiently strong economic framework can be developed, we anticipate substantial fast-disbursing resources can be provided by both the World Bank and the IDB. If Nicaragua can negotiate a stand-by arrangement with the IMF, we anticipate net Fund lending of some $40 million could be available in 1990.

SENATOR LEAHY: What does Nicaragua intend to do about commercial bank debt? About official debt?

MR. EAGLEBURGER: Nicaragua has substantial bilateral and commercial bank debt and arrears. We expect the Government of Nicaragua will begin discussions with official creditors in the Paris Club, with official creditors outside the Paris Club (Mexico, Venezuela, East European countries and the Soviet Union) and with its commercial bank advisory committee as it addresses its financing needs in the context of an IMF-supported macroeconomic program.

NICARAGUA: CHAMORRO'S ECONOMIC PROGRAM

SENATOR LEAHY: What are the basic elements of Violeta Chamorro's economic program? We have heard a lot about what they want us to do. What are they going to do?

MR. EAGLEBURGER: We have been impressed by the economic recovery plan which was presented to us earlier in March when Mrs. Chamorro's economic advisors were in Washington. We refer you to the UNO Agenda for Economic Recovery which has a comprehensive statement of their goals and objectives. In brief, the plan includes an emergency first phase with an immediate reactivation plan to terminate inflation, boost agricultural production, create an emergency safety net and repatriate exiles. The second accelerated recovery phase contains a plan for reconstruction and change to restructure the economy, transform defense into production, reconstruct the infrastructure and promote small business. The third sustained growth phase includes a plan for modernization and prosperity by modernizing the production capacity, reforming the educational system, providing a home for each family and improving social well being.

SENATOR LEAHY: How does she plan to cut inflation? What does she plan to do about state-owned businesses? What about agricultural cooperatives?

MR. EAGLEBURGER: Mrs. Chamorro's number one task as outlined in the UNO Agenda for Economic Recovery is to terminate inflation through a series of measures including central government budget reform, tax reform, reactivation of the private sector, development of a strong currency, etc.

Mrs. Chamorro's Government plans to transfer to the private sector State-owned enterprises which are not profitable and which can be privatized. Enterprises retained by the State will be guided by principles of efficiency and competition. Subsidies and privileges will be avoided and all State companies will pay taxes, social security and interest on bank loans. Monthly publication of financial statements will be required.

In the agricultural sector, the Chamorro Government will lease idle State lands in the short run and work toward bringing about land reform, based on the principles of a social market economy. Fertile land held by the State which is unused will be returned to legal owners and to the private sector. Special mechanisms for partnerships and profit sharing will be considered in order to reform Agricultural State companies.

SENATOR LEAHY: Assuming this aid is approved and Mrs. Chamorro does the right things, how long will it take before the economy has improved enough for the average Nicaraguan to feel the difference? What can we expect in terms of the rates of inflation and unemployment by the end of the year? What about average per capita income?

MR. EAGLEBURGER: The average Nicaraguan will begin to see a difference immediately as Mrs. Chamorro takes office and business confidence returns. The U.S. Government economic assessment team which just returned from Nicaragua reports a new confidence and enthusiasm in the private sector. People are optimistic about the new Government taking power on April 25th. By the end of 1990, we hope that the recovery process will be well-established, but we all understand that recovery will be a long-term process in this economy which has suffered more than a decade of communist mismanagement and inefficiencies. Rates of inflation are already beginning to drop after incredibly high levels of 16,000 percent in 1988 and 1,800 to 2,100 percent in 1989. Based on a recent U.S. Embassy market basket survey, we estimate that inflation over the last twelve months was approximately 300 percent.

With regard to unemployment, the Administration's FY 1990 supplemental for Nicaragua is designed to assist the Chamorro Government to create productive jobs quickly. Specifically, the $128 million for restoration of the productive capacity of the economy and the $75 million for economic growth and development will create many new employment opportunities. By the end of 1990, we hope that total unemployment figures will be dropping from current levels approaching 33 percent, but this will be a long process of recovery. Also, there is a significant part of the society that is working in the informal sector which is not included in official unemployment statistics.

Real per capita gross domestic product (GDP) declined sharply since 1980, dropping 17.5 percent last year and will take some time to reverse in light of the damage the Sandinistas have done to the economy. Average per capita income probably will not improve by the end of 1990, given the current rate of population growth of 3.4 percent (this does not take into account upwards of 500,000 exiles who will be returning this year). Mrs. Chamorro will take over four months into 1990 and it will be several months before her policies begin to take hold which could reasonably be expected to begin to reverse downward trends in per capita GDP.

THE UNO AGENDA FOR ECONOMIC RECOVERY

Nicaragua needs a change. It needs to get out of stagnation and misery and begin a new era of prosperity for all Nicaraguans. Thorough transformation of the national economy, as well as the adoption of a new economic policy, is necessary to recover. The National Opposition Union (UNO) Agenda for Economic Recovery offers a general guideline of the policies and institutional changes necessary to achieve a full-fledged transformation of the Nicaraguan economy and society.

We propose three recovery phases that begin simultaneously, but that have different time frames:

1. An immediate reactivation of production activities to be achieved in the first twelve months of the new government.
2. The rapid recovery of production levels, until we achieve, in a five year term, the volume of production that Nicaragua attained in the late 70's.
3. The beginning of a new era of economic progress, in which we will try to regain the standard of living that the average Nicaraguan enjoyed in the late 1970's.

All of this is to be achieved now, in the context of a new society, more modern, productive, ethical, just and humane. This Agenda, framed within the principles of the Program of Government of UNO, enumerates the necessary steps to build a new social market economy, based on the principles of liberty, economic efficiency, private property, social justice and a government that will participate in production only when production cannot be undertaken by the private sector.

The objectives of this Agenda can only become true if we can rely on the effective and enthusiastic participation of all sectors of the Nicaraguan society.

I. EMERGENCY PHASE:

IMMEDIATE REACTIVATION PLAN

This phase presents the necessary steps to be completed in the economic field during the first months of the UNO government. Its goal is to create the stability and confidence necessary to insure the agricultural cycle and simultaneously relieve those sectors that were most hurt by the crisis. **Because the rainy season occurs shortly after the new government will take over, time is of the essence in securing necessary supplies such as seed, fertilizer and fuel to enable planting before the rains come.**

TASK # 1: TERMINATE INFLATION

Budget Reform

Central Government

The basic principles of the budget reform are the following:

1. Freeze the level of real expenditure of the government while guaranteeing capable public employees their jobs, and eliminating phantom jobs and excessive employment.
2. Establish a clear and fair salary policy eliminating salary padding such as high perquisites, unusual and excessive expense accounts, and political subsidies. The plan will gradually reestablish the purchasing power of the salary of the low income employee.
3. Quickly redirect government expenses toward public works and the improvement of social services, particularly health and education.
4. Establish a philosophy of austerity for government expenses, eliminating privileges and the use of State funds for personal and partisan uses.
5. Eliminate any type of subsidy which is not essential.

A Strong Currency

The new government will introduce, in a gradual and orderly way, a new currency which will circulate together with the present currency for several months. The new currency will not cause monetary loss to the holders of the old currency. The currency will have a fixed exchange rate to the dollar and will be freely exchanged. The currency will be backed, in the first stage, by reserves strengthened by the international emergency aid, and, in the following stages, by the strong recovery of production.

Foreign Aid

During the last several years, Nicaragua has been receiving a considerable amount of foreign military and economic aid. Although we do not yet know exact figures, we believe that Nicaragua is one of the countries in Latin America with the highest level of foreign aid per capita. We believe that similar amounts as those received in the recent past should be enough to keep the economy going during the next few years because they will be used for productive, rather than warlike purposes.

To heal international relations financial arrangements will be reorganized based on renegotiation of the commercial and bilateral obligations, and on a healthy and prudent foreign debt policy for the future. Based on this, Nicaragua will be negotiating foreign loans of between US$500 and US$600 million a year for a three year period, preparing the conditions to reduce rapidly its financing needs in the following years. **This does not take into account additional emergency aid which is needed immediately.**

Bank Reform for Production

The State-owned banking system will be reorganized to increase its administrative efficiency and the autonomy of its branches, and to facilitate access by the small and medium producers. We will revise the liabilities of the companies controlled by the FSLN and enforce their debt service. We will establish clear guidelines for loans to State agencies so that they are used efficiently and repaid promptly, under the same conditions as private entities.

Program of Popular Emergency Credit

We shall launch an emergency credit program for small industry and commerce to restore the small production and commercial network which has been damaged by the previous administration. The program will ensure the efficient distribution of the growing production that we expect to attain. We shall also establish a program of rural credit which will provide emergency support to the small rural entrepreneurs.

TASK # 2: BOOST THE AGRICULTURAL PRODUCTION

Immediate use of Idle State Land

Recognizing the need to save the agricultural cycle 1990-1991 and to take advantage of the enormous quantity of fertile, idle land in the hands of the State, we will prepare a program to rent the idle State lands. Priority will be given to those who will be submitting requests to the courts for the recovery of unjustly confiscated or expropriated land, and who are producers that have previous experience and good credit history in that region. As to those agricultural State companies that could be operating with relative normality, we will consider special mechanisms for partnerships and profit sharing. (See later reference to agrarian transformation.)

Dollars to import Raw Materials and Spare Parts

The objective to achieve an immediate economic reactivation, and to save the upcoming agricultural cycle, will be backed by a strong pursuit for hard currency. New foreign credit lines and the redirection of available foreign credit will ensure the supply of seeds, spare parts, fertilizers, insecticides and other agrochemicals required by the enlarged areas of production. Rehabilitation of the agro-industrial processing and transportation equipment for agricultural production will also be prioritized in the usage of the new funds.

Repair of Bridges and Roads

We will immediately undertake a program to repair roads and bridges in the main areas of agricultural reactivation. Its objective will be to ensure access to farms and at the same time create a new source of employment to help alleviate the grave unemployment situation.

TASK #3: TO CREATE AN EMERGENCY SAFETY NET

Special Aid to Widows, Orphans and Handicapped

Through the existing Social Security Institute, we will introduce a special program to improve the difficult situation of war widows with small children, orphans and war-handicapped. Except in the case of irreparable damage, this aid will be temporary, expecting that new employment opportunities and the creation of small enterprises will enable these people to regain control over their destiny.

Special Aid to Orphanages and Nursing Homes

We will establish an immediate aid program to improve and extend the services of orphanages and nursing homes. We will give priority to those who have lost alternative means of support because of the relocation, migration, disappearance or death of their relatives as a result of war.

Revision of Retirement Benefits

The government of the UNO will immediately improve the painful situation of the elderly whose retirement benefits have been destroyed by inflation caused by the FSLN. The adjustments to the purchasing power of the Retirement Benefits will be introduced gradually until it is restored to a level that allows the retired to live with dignity and security.

Social Emergency Fund

We will negotiate with multilateral organizations for the necessary financing for the creation of a Social Emergency Fund. The Fund will simultaneously create temporary employment and immediately begin the repair of the infrastructure and other civic works. This will help families suffering from the high unemployment prevailing the Nicaragua.

TASK #4: REPATRIATION OF EXILES

Full Human Rights Guarantees for all Nicaraguans

According to the spirit of national reconciliation established in the Program of Government of the UNO, amnesty will be decreed for political offenses so that all exiled Nicaraguans who wish to return can do so enjoying full human rights.

Aid for those Returning to Nicaragua

We will design a special aid program to expedite the return of refugees and exiles to Nicaragua. Concerning refugees, the program will depend on the cooperation we can obtain from the United Nations Commission for Refugees and from other sources of aid that help refugees reintegrate into the country. Concerning exiled producers, professionals, technicians, and specialized workers, we will negotiate with several donors a special credit fund to finance, at least partially, their repatriation expenses.

Import Duty Exemption for Household Goods

During the first twelve months of the new government, all Nicaraguans who, for any reason, are out of the country and wish to return, will be exempted from import duty on all of their household goods including furniture, electrical appliances and a used vehicle. Vehicles imported under this law may not be sold until two years after their date of import.

Employment and Relocation Center

There will be an Employment and Relocation Center to give special aid to professionals, technicians, and workers who wish to return to Nicaragua.

Indemnification for Unjust Confiscation

We will establish a process to revise all of the confiscation and forced expropriation since July 19th, 1979. Where it is proven that a property was unjustly confiscated or expropriated, the new government will return it if it is found idle in the hands of the State. If the land is in use, the State will issue a an obligation for its assessed value expiring in a period to be determined by the public finances of the country. These obligations may be exchanged for other properties which the State decides to sell to the public within the democratization process of the national wealth, as we shall explain later. The cash redemption of the principal of the obligations will be redeemed in advance by the state if the proceeds realized will be used for new investments in the industrial sector.

II. ACCELERATED RECOVERY PHASE

PLAN FOR RECONSTRUCTION AND CHANGE

The second phase includes the necessary jobs to transform the economic structure, and establish a basis for the recovery of the real levels of production which Nicaragua generated in the late 1970's. We estimate that, with existing agricultural production capacity, and with the national capacity for processing, storage, transportation and distribution, the economy allows for a 10% annual growth beginning in UNO's first year of government. UNO can hold this rate for five or six years until it reaches the real gross national production level of 1977.

TASK #1: RESTRUCTURING OF THE ECONOMY

Orderly Transition

Disregarding political affiliation, the Civil Service Law will guarantee employment to State employees and technicians including those in Ministries and their regional dependencies, and in all State entities. From this date, we request all public employees to safeguard and manage properly the State assets and public documents, preventing removal, alteration or destruction of documents so that there can be an orderly democratic transition. The new administration of UNO, will retain the most capable and honest individuals who have been ignored by high ranking politicians of the FSLN.

Participation and Open-book Policy

Top management of State entities and institutions will include representatives from the opposition, private enterprise, and workers. Every board of directors of the public service entities and State companies, as well as the committees created at intra-governmental level must include such representatives. Financial accounts and statements must be kept updated and must be published regularly for public evaluation.

Deregulation

The new government will submit to the National Assembly requests for annulment or reform of all the decrees established by the FSLN government to monopolize, control or reduce the economic liberties necessary for the normal development of production.

Agrarian Transformation

We will establish a process to bring about land reform, based on the principles of a social market economy as presented in the Government Plan of UNO. Based on economic principles which prescribe that the State should not perform functions that can be done by private enterprise, we will place in private hands all productive resources now owned by the State.

Fertile land held by the State has been left unused. We shall immediately return it to its legal owners. Other State land will be offered for sale giving right of first refusal to people holding obligation for unjustly confiscated or expropriated property. The remaining State land will be distributed quickly, first considering the relocation needs of those displaced by war, and the assignment of land to veterans. Also, giving farmers productive land according to family needs and/or a specific parcel of land per family as explained later.

The State will try to ensure the management of the unexploited agricultural potential of the country, offering compensation to those landlords who were unable to take advantage of their land within a reasonable term and thus redistributing those lands according to principles of economic efficiency and social equality.

Democratization of State Property

All State companies in the production of goods and services will be privatized. For that purpose, we will establish a process that will take into account the diverse nature of property: mixed (private-State and foreign-national), private national, private foreign, and cooperative. Immediately, we will auction, preferably in small lots, the idle agricultural and transportation equipment in the hands of the State, as well as the assets of the small state-owned service companies in the tourism and local commerce sectors.

The purchase of these assets could be done with a small down payment. The remaining balance could be paid in a period shorter than the life expectancy of the assets purchased.

We will immediately proceed to identify those confiscated companies in the agricultural and industrial sectors that are operating significantly under capacity and auction all of their assets unless these companies are subject to return to private hands due to unjust confiscation.

Later, we will issue and offer for sale, the stock of the State companies that operate normally. Some stock could be offered for sale on credit to workers of companies who wish to make them cooperatives.

Democratization of Financial Intermediation

Within the philosophy of the social market economy, it will be possible to establish new institutions; private or mixed, local or foreign, in the financial sector, which will be under governmental supervision.

In the first stage, we will facilitate the establishment of investment and development financial organizations which will be allowed to issue certificates of deposit. These organizations will help direct foreign funds for the reactivation of the economy. During the second stage, we will encourage the establishment of lending institutions which will participate in the financing of housing projects. During the third stage, once we have healed the wounds of the national banking system, we will allow these financial organizations to gather current account deposits and become private banks.

In the same fashion, we will establish rules for and encourage the creation of new private enterprises in many industries such as insurance, warehousing and rental buildings.

TASK #2: TRANSFORM DEFENSE INTO PRODUCTION

According to the 1989 Program of Government of the UNO, we shall establish a process to reduce gradually and deliberately the size and type of armament of the Military and the Police. This process will be done in the steps that follow.

Land Assignment to Ex-combatants

All ex-combatants who wish to leave the military and dedicate themselves to agriculture will have priority in the assignment of State land being distributed by the agrarian reform.

Technical Training for the Ex-combatants

All ex-combatants who wish to leave the military and undertake a productive occupation in the city will have the opportunity, before leaving the service, for vocational training. This will give them access to better jobs.

Priority of New Jobs for Ex-combatants

All ex-combatants who wish to leave the military and immediately find a new non-agricultural occupation in the city will have priority for the new jobs created by the Social Emergency Fund mentioned previously.

Rural and Urban Civil Works Program

To reduce the size of the military, and while opportunities for private sector jobs become available, we will design a program of rural and urban public works such as the construction and repair of sidewalks, road and drainage systems.

Reforestation Program

The military will have the responsibility to resume the reforestation program of the Northeast, which was abandoned during the 1980's, together with all reforestation programs particularly in river basins and in areas most affected by erosion.

TASK #3: THE RECONSTRUCTION OF THE INFRASTRUCTURE

Reconstruction of the Road Network

We shall undertake a program of road reconstruction, with priority to areas of greater agricultural activity, thus recovering 4,500 kilometers of all-weather roads which were lost in the 1980's.

Rehabilitation of Rural and Urban Transportation

All transportation services will be managed exclusively by private enterprise or by cooperatives. The fees will be negotiated between the operators and the State with representation from consumers and workers. The idle State transportation equipment will be auctioned, preferably in small lots, as mentioned before. The equipment, as well as the urban and rural transportation routes, passenger and cargo, which are state- operated will be auctioned and credit extended. Repair and maintenance of these vehicles will be the responsibility of the new owners.

Reconstruction of the Electric Network

We will immediately negotiate the necessary foreign loans to reconstruct the electric network which is in a deplorable state. At the same time we will revise the electric capacity expansion plans to harmonize with the new economic reactivation.

Water for all of Nicaragua

We will proceed immediately to repair all water pumps which are out of service and will obtain the necessary funds to drill wells and give drinking water to each community starting with those that require the least investment. Many communities have obsolete water systems. This will require a massive program in order to achieve an integrated solution to the drinking water problem of the entire country.

Reconstruction of the Telecommunication System

Nicaragua's telecommunication system is obsolete and badly damaged. In the first stage, we need to make the most urgent repairs and to expand the amount of lines to cover the needs of the new enterprises that will arise from the economic reactivation. In the second stage, we will give the country a modern system of telecommunication capable of handling the growing numbers of international businesses.

TASK #4: LAUNCHING OF SMALL BUSINESS

Small Business Credit Program

Past government policies discouraged small business formation. We shall establish an ample credit program for the small business producer of goods and services. This program will offer supervised credits and competent technical assistance to any family that requests a loan to establish a small business at or near home. This family would be serving its community with the production of goods and services.

Through this program we intend to:

1. Set up an network of commerce and services to direct a growing demand engendered by the economic recovery;
2. Allow each family additional means to support itself, and;
3. Give young mothers the chance to participate in the economy of the country and earn an income in their own home and at the same time watch over their children.

We will give special effort to create a single office incorporating all the procedures necessary for the establishment and legal operation of the small business. Additionally, the program's aim will be to reduce excessive taxation and red tape.

Rural Credit Program

With the same spirit prevailing in the previous program, we will provide a program of special support to the small rural agricultural enterprises of commerce, processing, transportation and storage.

Training and Assistance to New Entrepreneurs

In an effort to assist the new entrepreneur, we will create an institution to provide management training, technical assistance, and guidance in the establishment of new, small and medium enterprises, rural and urban.

Information Services on Appropriate Technology

We will proceed to update, modernize and extend the existing technological information services, emphasizing the process of identification of local materials and equipment necessary for small and medium production as well as supply sources. A crucial aspect of this effort is to ensure access to information for small businesses or to those in the process of formation.

Support for Local and International Commercialization

Credit lines for small businesses will also be supported by a government institution providing technical assistance for local and international marketing. We will promote export diversification, taking advantage of the newly acquired commercial contacts of thousands of exiled Nicaraguans.

III. SUSTAINED GROWTH PHASE:

PLAN FOR MODERNIZATION AND PROSPERITY

This phase will lay the groundwork for Nicaragua to begin a period of prolonged growth based on a modern, efficient, productive and flexible economy for penetrating the international markets. Nicaragua has great natural resources, and because of its low density population and its privileged geographical location, it can grow at a rate to reach, in the first decade of the 21st century, the per capita income levels of the 1970's.

TASK #1: MODERNIZE THE PRODUCTION CAPACITY

Promoting Foreign Investment

We will promote foreign investment with the most ample guarantees so that foreign capital will flow with confidence into Nicaragua. We shall avoid restrictions as to type of investments but we will offer incentives to projects that are labor intensive, contribute skills and knowledge on new production techniques, and that will open the possibility for research and development in new technology, especially on tropical genetic engineering.

Agroindustrial Modernization

We shall offer incentives for modernization of agroindustrial equipment and production processes to ensure our international competitiveness. We will search for activities that will increase added value over raw materials.

Manufacturing Modernization

We will introduce a process of industrial conversion that should gradually replace the obsolete activities and production processes with more competitive alternatives. This will minimize the chance of our domestic savings and/or public foreign funds becoming risk capital unwisely invested in obsolete technology or activities vulnerable to sudden technological changes.

Promoting Exports of Non-Traditional Goods

The State will attempt to disseminate information on markets, products and processes of production that will allow the widening and diversification of the country's export base. We will also design a tax incentive package based on income tax reimbursement charged in the production chain in order to encourage the export of non-traditional products.

Livestock Breeding Development

The State will undertake foreign financing negotiations to support medium term investments aimed toward breeding and raising of cattle so as to restore the national cattle herd level and advance toward more efficient and productive livestock breeding.

Forestry Development

We will modernize the regulation of the country's forest resources taking into consideration ecological conservation and the protection of scarce varieties. At the same time we will encourage private investments in forestry projects. The State will have the responsibility for reforestation with varieties of medium term commercial potential.

Fishing and Aquaculture

One of the country's greatest potentials lies in fishing and in the development of aquaculture, because it enjoys the great advantage of having two coastlines and ample fresh water resources. We will return the fishing industry to private hands to help formation of new enterprises in a rational use of marine resources. We will also relieve control over the small fisherman. We will create a range of incentives for investments in aquaculture. We wish to attract foreign investors with experience in breeding shrimp and other species compatible with the conditions of Nicaragua.

Duty Free Zones

We will reestablish the Free Trade Zone Program which had a successful start in the 70's and was cancelled by the FSLN for purely ideological reasons. We will encourage "maquiladores" to decrease the high unemployment levels. The development of manufacturing skills will contribute to the productivity of the industrial sector of Nicaragua.

TASK #2: EDUCATIONAL SYSTEM REFORM

Review of the National Education Programs

With urgency, we shall proceed to review the programs of study starting at university level. We will prioritize, in the first stage, production related careers. **We will reduce the ideological content of education, and focus on development skills related to production and productivity.** The new education program will emphasize familiarization with modern technology and its adaptation and application in production in Nicaragua.

University Reform and Autonomy

We will form a commission to study the universities and the distribution of academic fields and resources as established by the FSLN. The Commission will introduce reform to rationalize the use of scarce resources of high education to establish an authentic autonomous university. We shall gradually increase the budget for higher education until we reach or surpass the levels of investment per university student of other developing countries.

High School Rehabilitation

We shall launch a program to rehabilitate high schools to provide them with necessary funds to meet efficiently the needs of a growing student population. Within our tremendous budget limitations, we shall establish a scholarship fund for high school students based on academic performance. Students of lesser academic achievement will be encouraged and guided toward shorter careers in technical and vocational centers.

Technical and Vocational Centers

According to the general priorities of the reactivation of the economy, we shall emphasize the rehabilitation and formation of technical and vocational centers to teach productive skills to a growing number of young people who can join our production forces. At training level we will seek international technical cooperation to introduce techniques that will modernize the country. This type of training is essential to compensate for the country's loss of qualified human resources during the massive exodus of the 80's.

Teacher Training Program

To compensate for the technical and scientific backlog suffered by the country in the last ten years, we will develop a special program to update educators, beginning with university and technical school levels, continuing with high schools and elementary schools. This modernization effort will focus on the capacity to acquire, transfer, and develop skills that could be applied toward production.

Scholarship Program for Study Abroad

The UNO will work towards obtaining many scholarships in countries of high Educational attainment. It will offer them to the new generation of university level and technical school students to replenish the human resources lost by migration. This will enhance contacts with foreign technological and scientific advancements.

TASK #3: A HOME FOR EACH FAMILY

Regional Development Program

We will design a Regional Development Program considering demographics, economic potential, ecological protection, and other variables related to orderly economic growth. This will enable each family to have it's own land on which to build a decent home. Based on this program we will establish incentives so that investments will be spread geographically in accordance with modern principles of decentralization and promotion.

Urban Development Program

Based on the program of regional development, we will determine in each urban area zones for the construction of homes. We will proceed to an orderly distribution of State lands available so that low- income families can own their own parcel of land where they can build their own home. Urban planning will mark residential, commercial and industrial areas, and allocate the supply of public services.

Rural Housing Program

Starting with State owned lands, we will provide each rural family with a parcel of land where it can establish its home. This program will be coordinated with the Agrarian Reform Program to ensure that families live close to the arable land they cultivate. Based on the regional development program, we will determine in each municipality the areas that will be subject to rural parcelling.

Construction Material Program

We will enact a financing program for the expansion and establishment of small and medium construction material production. We will emphasize the use of appropriate domestic materials according to each region. This program will help solve the great domestic housing program of the low income families.

Housing Credit

To meet the needs of the medium income families, we will offer long term financing for the purchase of land and for the construction of houses in the new urban developments.

TASK #4: SOCIAL WELL BEING

Elimination of Extreme Poverty

The UNO government will make sure to lay down bases to eradicate extreme poverty in Nicaragua before the year 2000.

The attack against extreme poverty will consist of identifying vulnerable families and groups in the regions where there is visible misery. The program will endow them with access to resources so as to allow them to take control of their destiny and enjoy a more productive and richer life. After providing them with access to land and credit, we will provide them education so that each family can generate the necessary income to satisfy its basic needs. Where the individual cannot support himself because of age or physical or mental impairment, the State will try to provide him with an acceptable living standard.

Rehabilitation of the Social Security System

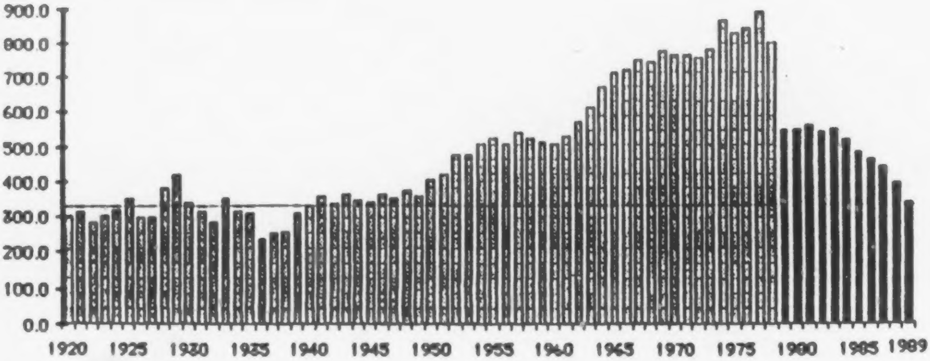
We understand that the control of inflation and financial stability will be important factors in the rehabilitation of the Social Security System. In addition, we will proceed to rehabilitate the health services of the Social Security system and introduce other services that improve the living standards of the members of the system. We will also try to expand the geographical coverage of the Social Security and enhance its attractiveness for small enterprises and for the self employed.

Rehabilitation of the Domestic Health System

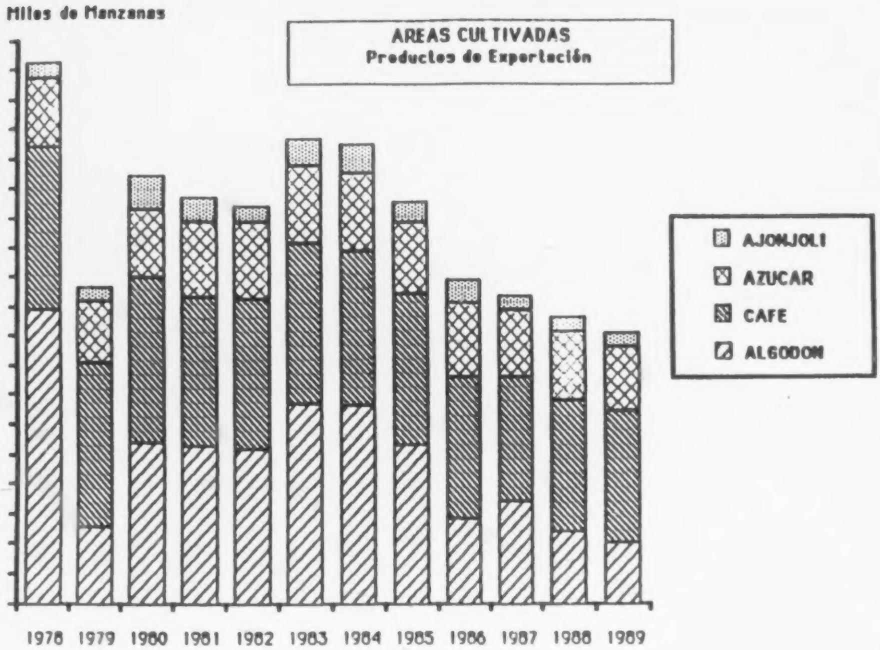
We will reorganize and rehabilitate the national health system, inviting decentralization and a more active role of the private health services. In regards to public services, we will emphasize prevention, vaccination campaigns, infant care and cleanliness. We will rehabilitate the hospitals and clinics, and will increase the training of their personnel to greater levels of professional capabilities.

Profit Sharing for Workers

In the search for a new social agreement that actively stimulates productivity and social peace, during its second year of government, UNO will establish a profit sharing plan for workers. At the same time it will create a Workers' Bank which will invest the resources yielded by profit sharing to encourage savings, and generate additional dividends for the working class.



NICARAGUA:
PRODUCTO INTERNO BRUTO REAL
POR HABITANTE
(US$, precios de 1980)


Miles de Manzanas
AREAS CULTIVADAS
Productos de Exportación
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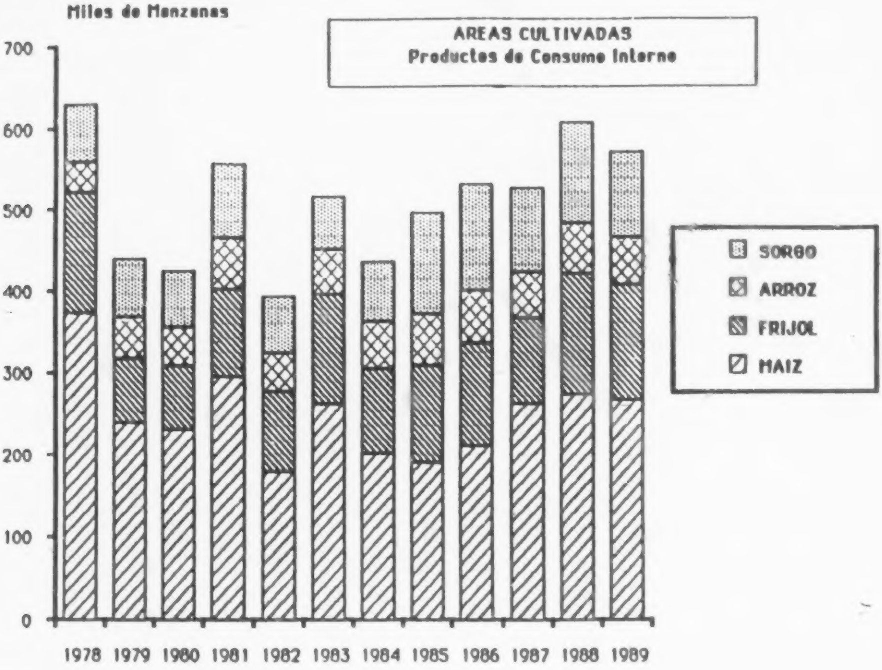
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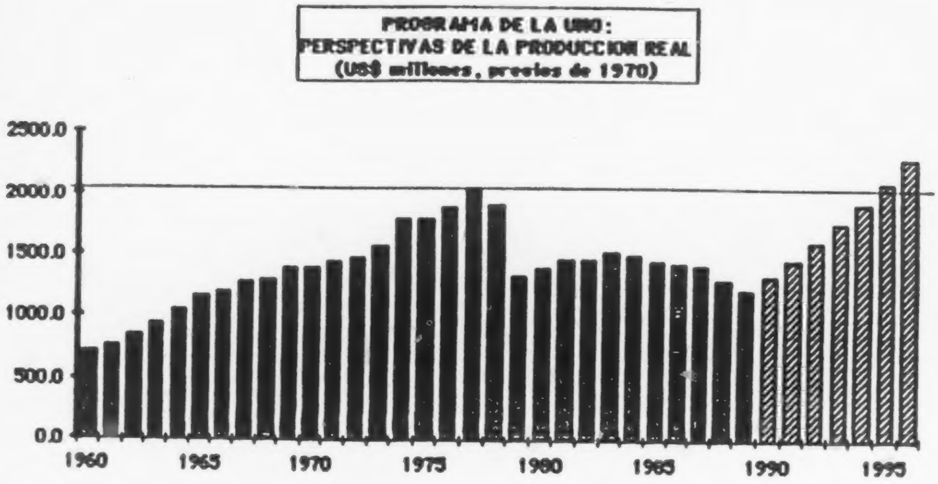

PROGRAMA DE LA UNO:
PERSPECTIVAS DE LA PRODUCCION REAL
(US$ millones, precios de 1970)

META DE CRECIMIENTO DEL PIB: 9.5% ANUAL

NICARAGUA: CONTRAS

SENATOR LEAHY: What is the Administration's position on the demobilization, disarming, and repatriation of the Contras prior to April 25th?

MR. EAGLEBURGER: The Administration has stated clearly and publicly that it expects the Resistance both to return to Nicaragua and to demobilize as soon as suitable mechanisms and security procedures can be established. Under the Toncontin Accords, signed by the Resistance and UNO, the demobilization process will begin prior to April 20th. The first forces to demobilize will be those in Honduras; the first formal demobilization is scheduled to occur on April 18th. In Nicaragua, demobilization will occur after secure transitional areas can be established and security verification mechanisms put in place.

SENATOR LEAHY: Are you going to let the Contras return to Nicaragua with their weapons?

MR. EAGLEBURGER: Since the Congressional cut-off of lethal aid to the Resistance in March 1988, the U.S. government has not supported the reinfiltration of armed Resistance members into Nicaragua. The Resistance members who demobilize outside Nicaragua will be disarmed and their reentry into Nicaragua will be disarmed.

SENATOR LEAHY: Is that not a recipe for continued civil war?

MR. EAGLEBURGER: The Resistance leadership has given strict orders that members who have returned armed to Nicaragua are to avoid contact with Sandinista forces. We believe they are doing so to the extent possible, considering the Sandinista military's continued offensive operations. We do not believe that there will be a continuation of the civil war because, armed or not, the Resistance wants to demobilize and reintegrate into Nicaraguan society as soon as their security needs can be met.

SENATOR LEAHY: If the UN sends a force to Honduras to disarm the Contras, will the Contras refuse to disarm?

MR. EAGLEBURGER: The UN force ONUCA recently received an additional Security Council mandate to receive and store weapons from Resistance members who are voluntarily demobilizing both inside and outside Nicaragua. As per the Toncontin Accords, the Resistance has agreed to begin the demobilization process in Honduras no later than April 20th and ONUCA forces are to receive the weapons.

SENATOR LEAHY: What will we do if they refuse to disarm?

MR. EAGLEBURGER: We do not anticipate a refusal to disarm. However, if some do refuse, they will not receive the economic benefits intended to assist demobilizing Resistance members in the reintegration process. Recipients must be engaged in a process leading to demobilization.

SENATOR LEAHY: What assurances do we have that the Contras will disarm in time for the Sandinistas to turn over control of the army to Mrs. Chamorro?

MR. EAGLEBURGER: The Resistance will not be fully disarmed prior to Mrs. Chamorro's inauguration on April 25th. However, the Toncontin Accord and the recent protocols signed between UNO and the Sandinistas strongly suggest that the transition of power will proceed even if all the Resistance has not disarmed.

NICARAGUA: CONTRAS

SENATOR LEAHY: You have requested $32 million to demobilize and repatriate the Contras and their families. What is this for?

MR. EAGLEBURGER: This request for assistance is to be used by the UN, the OAS, and other local and international organizations to support the voluntary demobilization, repatriation, and resettlement of members of the Nicaraguan Resistance and their families. Demobilization "packages" of assistance consisting of seeds, tools, building materials, food, medicines, and other similar items intended to help the member and his family start life anew is planned. In addition, the aid will provide for transport of the demobilized combatants and their families to a final destination.

SENATOR LEAHY: How much is this per Contra, and for how long?

MR. EAGLEBURGER: We believe that a minimum of 60,000 Resistance personnel and family members will be involved. This works out to $500 per individual and is consistent with our experiences with demobilization and repatriating efforts elsewhere in the world. The aid is designed as a one-time package to enable the Resistance members and their families to become self-sufficient upon return and not a burden on the new government.

SENATOR LEAHY: Why should we give the Contras more than other Nicaraguans--will that not cause even more resentment?

MR. EAGLEBURGER: The aid package requested for the Resistance is not meant to give more to the Resistance than to other Nicaraguans. Rather, it is intended to provide some assurance that these people who have been outside the country for an extended period of time will be able to reintegrate into society without being a burden and with a minimum of disruption. We do not believe that the modest aid request for the Resistance will cause resentment but that instead most Nicaraguans will feel that it is necessary and welcome.

SENATOR LEAHY: Who will administer these funds, the UN and the OAS?

MR. EAGLEBURGER: We have asked that the funds be administered through the International Commission of Support and Verification (CIAV), a joint UN-OAS agency set up at the request of the five Central American Presidents.

SENATOR LEAHY: According to a New York Times article on March 20th, none of this money will go to Contras who do not disarm. Is that true?

MR. EAGLEBURGER: The legislation is explicit that the aid goes only to Resistance members who are participating in a process leading to their voluntary demobilization.

SENATOR LEAHY: Do you plan to ask for more "humanitarian" aid for Contras who refuse to repatriate and seek to remain in Honduras?

MR. EAGLEBURGER: The Administration has no plans to seek any funds for Resistance members who refuse to enter a process of demobilization. This process should take place as rapidly as pratical.

NICARAGUA: CONTRAS

SENATOR LEAHY: Did we not appropriate $3 million last year for the UN and OAS to repatriate the Contras? Is it available to the UN and OAS today?
MR. EAGLEBURGER: The Administration agreed to make up to $3 million from the last humanitarian assistance package available to the OAS and UN to facilitate the demobilization and repatriation of the Resistance and their family members. The UN and OAS were unable to agree on a program to begin the demobilization process. We extended a grant of $500,000 million to the OAS at the end of February for this purpose.
By April 10th we will have provided an additional $3 million to the UN and OAS for demobilization and repatriation. The delay in providing these funds was due to several procedural details that the UN and OAS had to work out between themselves before our assistance could be extended.

SENATOR LEAHY: The UN says it needs an armed peacekeeping force of 800 men to disarm the Contras. What is your position on that?

MR. EAGLEBURGER: ONUCA, the UN Observer Group in Central America, was established by Security Council Resolution 644 on November 7, 1989. Its mandate, as requested by the five Central American presidents, was to serve as the impartial machinery for on-site verification of the Esquipulas II agreements, namely cessation of aid to irregular forces and insurrectionist movements operating in the region and the non-use of the territory of one state for attacking others. It was therefore concerned primarily with monitoring cross-border arms supply, such as that provided by the Sandinistas in Nicaragua to the FMLN insurgents in El Salvador.

In his letter of August 28, 1989, to the Security Council on the establishment of CIAV, the Secretary-General noted that "the question of demobilization as such concerns the Security Council particularly, since it is an operation of a clearly military nature....In the view of the Secretariat," he added, "this task should be entrusted to military units equipped with defensive weapons....[S]uch an operation is clearly within the competence of the Security Council."

The Secretary-General reported again to the Security Council on March 15, 1990, requesting authorization for additional responsibilities for ONUCA to enable it to play a role in the voluntary demobilization of members of the Nicaraguan Resistance both inside and outside Nicaragua. The United States actively supported this proposal. On March 27, the Security Council unanimously approved this new task -- to receive weapons turned in by members of the Resistance -- which will require deployment for two to three months of an armed battalion of light infantry, to be provided by Venezuela. By establishing this second, armed element of ONUCA, the Security Council has in effect moved the military aspect of CIAV's responsibilities to the UN peacekeeping force already present in the region. We are working to help the UN and the parties define additional responsibilities -- such as establishment and verification of a ceasefire, separation of forces, and creation and patrolling of secure transitional areas -- which may be required of ONUCA in light of the March 23 Toncontin Agreement on demobilization reached between UNO and the Resistance.

SENATOR LEAHY: So far the UN says it has received only $5.4 million out of an estimated $40 million needed for such a force. Will this delay the demobilization?

MR. EAGLEBURGER: We see no reason why demobilization should be delayed because of the funding process. Of the $40.4 million apportioned among member states for ONUCA's original six-month mandate, the Secretary-General's report of March 15 noted that only $5.4 million had been received, and by March 28 the amount received had only increased to $14.1 million. The U.S. assessed portion of the overall amount is $12.6 million, which was due in January 1990. Having now received approval to reprogram funding from other UN operations, we are processing payment for this initial assessment immediately.

Given the continuing conflicts in Central America, including FMLN attacks on the democratically-elected government of El Salvador, we believe that ONUCA's original mandate will be renewed for at least 18 months beyond the initial period, so we also sought authority to reprogram $8.3 million in funds from FY 1990 to cover the remainder of our expected obligation in the current fiscal year. Our budget request for FY 1991 includes $16.7 million for ONUCA's original mandate, which should be adequate to cover our obligations through November 1991.

The Secretary-General estimates ONUCA's new mandate to receive arms from demobilizing members of the Nicaraguan Resistance will cost $7-9 million but should last only two or three months. The U.S. portion of this assessed obligation (approximately $2 million) has been requested in the supplemental authorization for Panama and Nicaragua.

NICARAGUA: CONTRAS ATTACKS

SENATOR LEAHY: During the past year I received dozens of detailed reports of attacks by Contras against civilians. I and other Senators sent those reports to the State Department and asked for an investigation. As far as I know, nothing was done.

MR. EAGLEBURGER: As the Administration and Congress agreed in the bipartisan accord, it is and has been the policy of the United States to encourage both the Government of Nicaragua and the Nicaraguan Resistance to cease hostilities. Further, it is our policy that no humanitarian assistance funds will be used to support any individuals engaged in offensive military operations or human rights violations.

SENATOR LEAHY: Did any Administration official ever interview any of the authors of those reports, many of whom were American citizens?

MR. EAGLEBURGER: I can assure you that we are in close contact with Nicaraguan, American, and international human rights organizations. We thoroughly review their reports and forward the information to the Nicaraguan Association for Human Rights (ANPDH) which investigates the allegations.

We do not have the capability to assess the reliability of each reported attack that mars the truce between the Nicaraguan Resistance and Sandinista forces. However, the Resistance leadership has given us assurances, both publicly and privately, that its orders are that there be no offensive operations and that contact with the Sandinista Popular Army be avoided at all costs.

SENATOR LEAHY: Did any Administration official ever ask the International Red Cross for information about any of those attacks?

MR. EAGLEBURGER: Our embassies keep in close contact with regional and local International Red Cross personnel. I am not aware of any case involving Resistance attacks against civilians which Red Cross officials have brought to the attention of United States government personnel in the region.

Because of continued offensive military operations and to deflect criticism, the Sandinistas have frequently accused the Resistance in the past of carrying out offensive actions. While we do not believe the vast majority of these claims, the actions of isolated Resistance units in a few cases have been questionable. Without being able to investigate these allegations, it is very difficult to determine culpability. In instances where there is some possibility that the Resistance may have initiated the operations, we have been quick to re-emphasize to the Resistance leadership our concern about the effect such operations would have on continued U.S. aid. In instances where we have been able to establish that a Resistance unit did initiate offensive operations, we have terminated all U.S. assistance.

NICARAGUA: CONTRAS

SENATOR LEAHY: According to the human rights group Americas Watch, the Contras were responsible for the death of the two nuns, one of whom was an American citizen, on January 1. They were killed when their car was attacked on an isolated road in northern Nicaragua. What information do you have about that attack?

MR. EAGLEBURGER: We share your deep concern about the death of the nuns. When news of the attack was received, the Department began an investigation through its embassies in Tegucigalpa and Managua.

The Nicaraguan Resistance leadership was informed again of the U.S. government's position that such conduct would not be tolerated and that any individual or unit involved in such activity would be cut off from U.S. aid. The Resistance leadership has assured the United States that they are aware of the seriousness of such an act and that, to the best of their knowledge, none of their forces were involved. The leadership also stated that they would continue to investigate and, if any of their forces were found to be involved, they would not be protected.

To date, we have received conflicting accounts of this incident. It should be noted that, despite repeated requests, the Sandinista government did not allow any U.S. embassy official to travel to the site of the attack until January 14th, two weeks later. By that time, much of the evidence had been removed or destroyed. Moreover, interviews with local residents and other potential witnesses were not permitted except in the presence of Sandinista officials. As a result, we were unable to reach a definite conclusion about the identity of the attackers.

The Nicaraguan government announced on the day of the attack, January 1st, that the Nicaraguan Resistance was responsible. Subsequently, the Sandinistas identified one Comandante Ruben as the leader of the unit allegedly involved. Extensive investigation by Resistance leadership through their intelligence channels revealed that at the time of the attack, Ruben and his group were reported operating in the area of Boaco, more than 100 miles to the southwest.

The Sandinista Ministry of Defense's own reports concerning the region of Siuna indicate that there were no Resistance contacts for an extended period of time prior to the attack on the nuns.

The only known armed band operating in the area was "Kisan por La Paz" (Kisan for Peace). This is a renegade group that has been affiliated with the Sandinistas in the past but has operated independently. This group has no connection of any sort with the Nicaraguan Resistance.

Nicaraguan Catholic Church leaders have not concluded that the Resistance was responsible for the death of the nuns. Rather the church leadership, like the U.S. government, has preferred to continue investigating before assigning blame.

We wish to assure you that the investigation into the death of the nuns will continue and that the Administration and the Department fully support these efforts. To this end, the Resistance leadership has ordered Ruben and his unit to return to Honduras for interrogation and they fully intend to cooperate with the U.S. government. Ruben is supposed to be returning to Honduras around mid-April. We are pressing for him to return.

NICARAGUA: SISTER CITY PROJECTS

SENATOR LEAHY: During the past few years many American cities established their own links with communities in Nicaragua. One example is Burlington, Vermont, which became a "Sister City" of Puerto Cabezas, Nicaragua. These citizen-to-citizen programs are one of the best ways for the United States to improve our relations with Nicaragua after ten years of war. I would hope that we could target some assistance to support those Sister City programs.

MR. EAGLEBURGER: In the democratic initiatives portion of our package, we will certainly look at "Partners" and "Sister Cities" for programs that will stimulate democratization on the municipal level.

HIG -- ISRAEL

SENATOR LEAHY: Mr. Secretary:

Senator Kasten and I introduced a bill to provide $400 million in housing guarantees to assist Israel absorb Soviet Jews. We stated that it was our intention to offer the bill as an amendment on the Supplemental.

In that bill, we did not include statutory language prohibiting the use of any of the loan guarantees in the occupied territories. As I said in my floor statement, I did so because of assurances from the Administration that any housing guarantee agreement with Israel would contain the standard clause in all US assistance agreements with Israel.

Here is the language from an earlier Housing Guarantee contract with Israel requiring that:

"The dwelling units are located in territory that was subject to the administration of the State of Israel prior to June 1967."

This language bars use of any of the housing guarantees in the West Bank or Gaza.

What is the Administration's position on the HIG guarantee bill? Is this standard clause prohibiting use of the assistance outside the June 1967 borders sufficient to satisfy Administration concerns?

MR EAGLEBURGER: The Administration supports housing investment guarantees to help Israel resettle Soviet Jews, provided the United States and Israel can work out satisfactory assurances.

SENATOR LEAHY: If this assurance is not sufficient, what additional assurances or language would the Administration want to be able to support the HIG bill?

MR. EAGLEBURGER: We are considering what assurances we want from Israel with regard to housing guarantees.

REFUGEE ASSISTANCE

SENATOR LEAHY: Why did you cut our contributions to UNHCR, UNRWA and ICRC by over $60 million?

MR. EAGLEBURGER: There are two reasons for the reduced FY 1990 level of U.S. contributions to UNHCR, UNRWA and ICRC from the amounts provided in FY 1989.

First, U.S. contributions to those organizations in FY 1989 came from three sources of funds: the FY 1989 Migration and Refugee Assistance (MRA) appropriation, the FY 1989 Dire Emergency Supplemental, and the U.S. Emergency Refugee and Migration Assistance Fund (ERMA). The additional funds from the supplemental and ERMA increased the amounts available for these organizations by $41.1 million over the amount provided in the MRA account.

Second, the Administration's FY 1990 request for these same three organizations under the Migration and Refugee Assistance account as appropriated was reduced by earmarks requiring the use of funds for purposes other than for which they were requested. The impact of these earmarks was to divert funds from these organizations.

SENATOR LEAHY: Would you support an amendment to the supplemental to raise U.S. contributions to these three main refugee assistance agencies to the 1989 levels?

MR. EAGLEBURGER: No, the Administration would not support an amendment to the supplemental to raise U.S. contributions to these three refugee assistance organizations. The Administration's $70 million request for refugee admissions in FY 1990 -- if appropriated as requested -- would ensure that the full amount of the President's Emergency Refugee and Migration Assistance Fund would be available to meet urgent refugee assistance needs.

At the beginning of the year, the Fund contained almost $50 million. To date, the President has authorized the use of $24.95 million from the Emergency Fund to meet urgent assistance requirements; most of this money will be contributed to the UNHCR ($22.45 million) and ICRC ($2.3 million). If the admissions funding shortfall is covered by the supplemental, then the balance remaining in the Emergency Fund is available to address urgent assistance needs.

SENATOR LEAHY: What will the Administration do to replace the $25 million it is drawing from the ERMA? If you do not replenish the ERMA, there will be no reserve for future refugee emergencies, and we can be sure there will be more emergencies in Africa.

MR. EAGLEBURGER: The Administration's FY 1990 $70 million supplemental request does not include an amount to replenish the Emergency Fund.

After the recent drawdown of $24.9 million from the Emergency Fund there remains a balance of just under $25 million. As you know, we have requested a $25 million replenish of this Fund in FY 1991.

WORLD BANK CALLABLE CAPITAL

SENATOR LEAHY: Last year, the Senate and House Appropriations Committee disagreed over whether to include the $2.24 billion in callable capital for the

World Bank. We did agree to address the callable capital issue in this supplemental. What if the Congress does not approve this callable capital-- how much will our voting share drop? When will it drop below the 15 percent we need to maintain our veto in the World Bank?

MR. EAGLEBURGER: The rate at which our relative voting power declines depends on the rate at which other shareholders subscribe to new capital shares under the General Capital Increase and, to a lesser extent, on the subscriptions of countries now seeking membership in the Bank. However, under the most reasonable scenario, unless we provide the callable capital in the Administration's request, our total share of World Bank capital will probably drop below 15% by around July 1990.

SENATOR LEAHY: What portion of the Bank's budget do you expect to be used to pay off Third World debts to the private banks?

MR. EAGLEBURGER: In the Bank's most recent fiscal year, 67% of IBRD lending was in the form of project loans. Such loans directly finance the inputs (equipment and services) associated with completion of a specific project. For IDA, project lending accounted for 75% of its FY89 credits. The IBRD and IDA did 33% and 25% respectively of their FY89 lending in quick-disbursing policy-based loans: structural and sectoral adjustment lending. Such loans provide balance of payment support to countries conditional upon their undertaking comprehensive policy reforms. Since these loans are quick-disbursing and not linked to any specific expenditures, they are an integral part of reforming countries overall balance of payments financing. A viable financing program for adjusting countries provides for the servicing of its debt obligations, as well as for the imports necessary to maintain an acceptable level of economic growth. Since the Bank's policy-based lending is fungible, it is impossible to say what share of such loans countries use to service their commercial bank debt. It is true that some countries involved in structural adjustment programs are also heavily indebted to commercial banks. We are dealing with this problem, with support from the World Bank and IMF, through the strengthened debt strategy.

Countries receiving debt relief under the strengthened debt strategy (Mexico, the Philippines, Costa Rica and Venezuala) are allowed to set aside some portion of their World Bank policy-based loans to directly finance debt or debt service reduction. The level of World Bank support in these instances is determined on a case-by-case basis. Effective debt management by the heavily indebted countries is a necessary precondition for their eventual return to creditworthiness and new access to international capital markets.

SENATOR LEAHY: What can we expect in the future? Is the World Bank going to end up paying a larger and larger share of the cost of debt relief?

MR. EAGLEBURGER: We expect the World Bank and the IMF to support the strengthened debt strategy in heavily indebted countries which are seriously committed to adopting adjustment programs. If countries pursue sound macroeconomic policies and market-oriented economic reforms, we believe that they can attract international private capital flows. The size of World Bank commitments would therefore be relatively smaller over time.

SENATOR LEAHY: Have any other donor countries failed to pledge their callable capital? What about their paid-in share?

MR. EAGLEBURGER: Some World Bank members subscribed to their shares under the General Capital Increase in a single transaction. Others, like us, are phasing in their subscription over several years. All major donor countries are subscribing to shares under the General Capital Increase in a timely fashion.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

OPIC GROWTH FUND FOR POLAND

SENATOR INOUYE: Mr. Eagleburger, I understand that several weeks ago, you were in Poland to explore new avenues for assisting in that country's economic growth. Do you support the establishment of an OPIC Growth Fund for Poland? If so, how would it function? What would OPIC's financial commitment be?

MR. EAGLEBURGER: OPIC, with our strong support, is developing a $200 million Eastern European Growth Fund, which would have a special window to use funds earmarked by the Congress for use in Poland. The Fund, which will be organized as a closed-end investment company, will invest in the equity and debt securities of companies in eastern Europe with significant participation by the U.S. private sector. OPIC's role will be to organize the Fund and to act as guarantor of the Fund's senior debt.

EARMARKS

SENATOR INOUYE: Mr. Eagleburger, you testified on March 6th before the House Budget Committee that the Administration will support a "shave" across the board of earmarks to finance emerging democracies. Yet in the same testimony you added that "If we want to have strong and consistent allies, we must be strong and consistent in our support for them." Why should these statements not be viewed as contradictory? How can you reconcile advocating across the board cuts while maintaining strong support for our friends? Would you support reductions in our current aid levels to the top 5 earmarked countries, most of whom are themselves democracies in order to aid emerging democracies in Eastern Europe?

MR. EAGLEBURGER: The statement on a "shave" across the board of earmarks is not contradictory with a statement that "we must be strong and consistent in our support" for allies, because the Administration's FY 1991 foreign assistance budget request would allow us to be a strong and consistent ally. We urge the Congress to appropriate funds to each foreign aid account at the levels requested by the President, so that we can meet our commitments. However, if Congress for whatever reason cannot provide us with our funding request, we will need the maximum amount of flexibility to allocate the funds provided, so as to minimize damage to our foreign policy and national security interests. Specifically, we need minimum earmarking of foreign military sales financing (FMSF) and economic support fund (ESF) accounts.

Should Congress fail to limit earmarking, we would have to find another way to give the President the flexibility he needs to respond to the dramatic changes in Eastern Europe, Panama and Nicaragua. The suggestion that Senator Dole put forward is one possibility, but we would support a shave proposal, only if it were made applicable to all earmarks, not just to the top five. Thus, we would treat all our friends and allies equally, while gaining the flexibility to support friends who were not favored by earmarks.

HIG -- ISRAEL

SENATOR INOUYE: I understand that A.I.D. regulations prohibit the use of assistance provided under its housing guarantee program outside Israel's green line and that Israel has given assurances that the guarantees, like foreign aid, won't be used in the territories. Israeli leaders have also said that there will be no additional Israeli funding to encourage Soviet Jews to settle in the West Bank. What is the Administration's position on the housing loan guarantee program for Israel? What more is the Administration seeking?

MR EAGLEBURGER: The Administration supports housing investment guarantees to help Israel resettle Soviet Jews, provided the United States and Israel can work out satisfactory assurances. Israel has not yet provided us with specific assurances relative to housing guarantees.

REFUGEE ASSISTANCE FOR ISRAEL

SENATOR INOUYE: In addition to the HIG program, there is a concern that the $25 million in refugee assistance earmarked for Israel in the FY 90 budget will not be sufficient to help Israel cope with the hundreds of thousands of Soviet Jews who will be immigrating to Israel. I also note that the Department requested $30 million for this account in the FY 91 budget. In this case, would it make more sense to increase the funding level at this time so that Israel can put this money to use at the present time instead of in the upcoming fiscal year?

MR. EAGLEBURGER: Overall budget constraints and increasing numbers of refugees in life threatening situations in other parts of the world, most of whom have no advocates or communities with resources to relieve their conditions, are placing heavy demands on the overall Refugee Program budget. There are also additional costs of bringing to this country persons of special humanitarian concern and with ties to the United States, including Jewish refugees from the Soviet Union and Iran. The U.S. grant to United Israel Appeal historically has represented only a small portion of the overall cost to Israel of resettling refugees. Most of the costs are borne by the American Jewish community which finances about 70% of the total funds. For these reasons we are not asking for supplemental funding in FY 90.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SENATOR INOUYE: At this time, the United States and Western Europe are negotiating over the creation of a European Bank for Reconstruction and Development (EBRD). This bank is intended to assist the nations of Eastern Europe in the transition to democracy and a free-market economy. Do you think that the United States needs to spend $80 million dollars to join this bank when the World Bank has both the funds and the skills with which to assist Eastern Europe? If the United States does join the EBRD, do you think the Soviet Union should be allowed to receive assistance from it?

MR. EAGLEBURGER: The World Bank and other institutions can provide economic assistance to Central and Eastern Europe. The European Bank for Reconstruction and Development (EBRD), however, is unique because of its broader purpose -- to assist the political and economic transformation of these countries. No other international financial institution has the goal of promoting democracy, pluralism and rule of law. The EBRD will also concentrate on developing the private sector, unlike the World Bank,. The EBRD's charter will require that at least 60 percent of resources be devoted to private sector projects. These features set apart the EBRD from other institutions and give it a compelling justification.

The EBRD will be established. That is not at issue. The member states of the European Community endorsed the idea in December. The question for us is whether the U.S. should join the Bank. The events taking place in Central and Eastern Europe are the most significant changes in the world scene in 40 years. The EBRD has an important role to play in these events and I believe U.S. involvement and leadership are important to demonstrate our political commitment to the reform process in Central and Eastern Europe.

That said, important issues still need to be resolved before the U.S. is prepared to join the EBRD. The most crucial is the role of the USSR. We believe that for a period of time Soviet borrowing should be limited to the capital the USSR contributes. Most of the major participating countries agree that the USSR's size and global position make it essential to limit Soviet borrowing. Various proposals on this point are under consideration. Another issue is that our budget process precludes us from committing our paid-in and callable capital in European Currency Units (ECU) without a fixed exchange rate between the dollar and the ECU.

There is no decision on the allocation of capital in the bank. We have proposed taking a 10 percent share and being the largest single shareholder. This would underline the importance we attach to the bank and to our partnership with Western Europe. With an ECU 10 billion ($12.1 billion) capitalization, the U.S. commitment over five years would, at current exchange rates, equal $1.21 billion ($363 million in paid-in capital and $847 million in callable capital) or $242 million annually ($73 million paid-in and $169 million callable).

THE CHAMORRO GOVERNMENT

SENATOR INOUYE: Any American aid to the Chamorro government is dependent upon the Sandinistas relinquishing power and the contras dissolving as a fighting force and returning to Nicaraguan society. What is the progress of the negotiations between Mrs. Chamorro and Mr. Ortega on handing over power? What steps are the contras taking to facilitate this process?

MR. EAGLEBURGER: On March 27, the outgoing government and UNO signed a protocol which addresses the more sensitive transition concerns of both sides. The protocol stipulates that the armed forces -- to be reduced in size -- will be apolitical and subordinate to civilian authorities and the president. Combat weapons shall be in the hands of the armed forces only, a provision which sets the stage for reclaiming weapons that have been handed out recently to Sandinista militants. The agreement also lays out principals for resolving land disputes, a potentially explosive issue. As for the contras, on March 23, the Resistance, UNO and Cardinal Obando Y Bravo signed an agreement for the demobilization of the contras in Honduras before April 20. Those combatants in Nicaragua will go to transitional security zones (supervised by ONUCA, CIAV and Cardinal Obando) for orderly demobilization. The agreement also calls for a verifiable and mutual cease-fire and UNO/Resistance commissions to set in motion the agreement. By deciding to initiate a demobilization process, the Resistance has contributed greatly to a peaceful transition.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

OFFSETS

SENATOR DECONCINI: I understand that $81 million for the Nicaragua package are coming from the military construction budget.

Can you give me a list of projects that are being cut from the military construction budget?

Are there any projects from Arizona?

MR. EAGLEBURGER: The Administration has drawn up a list of proposed projects and provided that to Congressional appropriations committees. The list and related issues are currently under discussion. The Administration's list contains two projects located at Luke Air Force Base in Arizona. They are a dormitory to house enlisted personnel, valued at $3.2 million, and an ammunition storage igloo, valued at $770,000.

NICARAGUA: TRANSPORTATION

SENATOR DECONCINI: During their recent visit here, what did the Chamorro government's economic team indicate as priorities over the next several years? Did the Nicaraguans specify the need for aid in the area of transportation?

DEPUTY SECRETARY EAGLEBURGER: Beyond the emergency phase and immediate needs, the UNO advisors outlined their intermediate and longer term approach.

The intermediate phase is aimed at accelerated recovery. Its priorities are to (1) revamp economic policies for a market-based economy, (2) transform defense resources into productive activity, (3) rebuild infrastructure, and (4) launch small enterprise.

The longer term phase aims at sustained growth. Priorities for this phase are (1) modernizing production capacity, (2) reforming the educational system, and (3) developing housing programs, and (4) developing social programs to alleviate extreme poverty.

The UNO economic plan addresses rehabilitating transportation services as a component of rebuilding the infrastructure. The plan indicates that transportation routes and equipment, previously state operated, will be auctioned to private owners. In the context of this first appropriation, it is unlikely that funds would be used for buses. However, we will be examining this question in more detail and it could be that items such as buses would be included. To date, these have not been identified as a most critical item.

PRIVATE SECTOR INVOLVEMENT IN NICARAGUA: REHABILITATION

SENATOR DECONCINI: Has the Administration taken any steps to try to get the U.S. private sector involved in the rehabilitation of the Nicaraguan economy and infrastructure?

MR. EAGLEBURGER: The U.S. private sector can play a very important role in the recovery of the Nicaraguan economy. We believe that the Nicaraguan economic recovery period should offer trading and investment opportunities for U.S. firms. Clearly, a return of democracy and stability to Nicaragua will greatly assist a return of U.S. business confidence. The U.S. Embassy in Nicaragua and the Department of Commerce in Washington have received numerous inquiries from Nicaraguans and U.S. citizens about trade possibilities between our two countries now that the trade embargo and state of emergency have been lifted. The Commerce Department is examining ways to implement commercial programs and has initiated a business outreach program aimed at encouraging U.S. businesses to become involved in Nicaragua. We also have begun talking to the private sector about opportunities for U.S. firms during Nicaragua's recovery process. OPIC has an existing, but dormant bilateral agreement with Nicaragua which would allow operations as soon as GSP is restored. OPIC already is making preparations for an investment mission in the near future.

PRIVATE SECTOR INVOLVEMENT IN NICARAGUA: TDP AND EXIM

SENATOR DECONCINI: Has the Administration thought about allocating funds from the Trade and Development Program TDP program in AID and providing a credit line from EximBank?

MR. EAGLEBURGER: The Trade and Development Program provides funding for feasibility studies of projects overseas which have a high probability of leading to U.S. exports to the region. The TDP, like AID, is in the process of examining the possibility for feasibily studies in Nicaragua. At present, EximBank may not support exports to Nicaragua through any of its programs, as it is among the countries designated by Congress as "Marxist-Leninist" under an amendment to the Export-Import Bank Act of 1945, enacted in 1986. We are now considering a recommendation to the President that he make the determinations required under the legislation for lifting the prohibition. A preliminary approach to making EximBank credits available in countries which do not meet risk criteria is to provide trade credit insurance through the Trade Credit Insurance Program (TCIP) administered by A.I.D. The extension of the TCIP to Nicaragua is a priority and A.I.D. will investigate the start-up of such a program with the new government after inauguration.

ISRAEL

SENATOR DECONCINI: What is the Administration's position on the housing loan guarantee program for Israel?

MR EAGLEBURGER: The Administration supports housing loan guarantees for Israel provided the United States and Israel can work out satisfactory assurances.

SENATOR DECONCINI: AID regulations prohibit the use of such assistance outside Israel's green line and Israel has indicated that, as in the case of foreign aid, it will give assurances that the guarantees will not be used in the disputed territories. Are we willing to accept these guarantees?

MR. EAGLEBURGER: We are considering what assurances we want from Israel with regard to housing guarantees.

OFF-SETS

SENATOR DECONCINI: With anti-semitism again on the rise, is our refugee resettlement budget and international refugee assistance budget sufficient to meet any contingency?

MR. EAGLEBURGER: One can not predict the course of events in the Soviet Union. Nevertheless, we do expect that the demand for emigration from the Soviet Union to the United States will remain very high. The Administration is committed to responding as generously as possible to the expected rise in demand.

The FY 1990 budget and supplemental appropriation request for refugee admissions provides for 40,000 funded Soviet admissions. The Presidential Determination on refugee admissions for FY 1990 included 10,000 extra Soviet admission numbers for private sector funding as a supplement to the 40,000 fully funded numbers. We also expect to admit some 10,000 to 20,000 Soviet emigrants under regular emigration procedures and the Attorney General's parole authority.

In addition, the Administration has proposed the enactment of special humanitarian emigration legislation that would provide 150,000 additional emigration numbers over the next five years. Although the bill as introduced does not specify the beneficiaries by nationality, rather providing this on an annual consultative process with the Congress, it is clear that in the current circumstances a high priority would be given to applicants from the Soviet Union.

The FY 1990 budget for international refugee assistance provides $24.89 million to help finance the resettlement of Jewish refugees in Israel.

These refugee funds, as requested for admissions and assistance purposes, relate to specific needs; they are not, therefore, sufficient to meet all contingencies.

Question. Can you tell us exactly how much in debt repayments these multilateral institutions will receive from Panama and Nicaragua this year and how much they will return to these countries in assistance?

Answer. Panama's arrears to the IMF, World Bank, and IDB totalled $540 million at the end of 1989. These arrears date back to late 1987. An additional $265 million falls due during 1990.

Nicaragua's arrears to the World Bank and IDB totalled $230 million as of February 28, 1990. These arrears date back to 1983. Nicaragua does not have arrears to the IMF. An additional $76 million falls due to the World Bank and IDB during the remainder of 1990.

To be eligible to receive new loans from the international financial institutions (IFIs), Panama and Nicaragua must clear their arrears and stay current on payments falling due. In exchange, the IFIs will provide critical technical advice, assistance in designing sound economic reform programs, and substantial lending for projects, sector and structural adjustment.

Panama and Nicaragua need sound economic reform programs supported by the IMF as the basis for mobilization of resources to clear IFI arrears and as the basis for new fast-disbursing loans. If strong economic reform programs are developed, we anticipate that substantial fast-disbursing resources will become available for these two countries. We hope that disbursements in 1990 to Panama and Nicaragua will exceed the amounts that fall due in 1990, excluding the stocks of arrears that have accumulated over several years. We are confident that a positive balance can be reestablished on an annual basis as Panama and Nicaragua regularize their financial relations with the IFIs.

Two IMF missions have visited Panama and discussions on an economic program are progressing. The recent presentation of the 1990 public sector budget by the government of Panama has advanced the negotiations and we believe an agreement will be reached in the near future. It will take longer for Nicaragua to reach an agreement with the IMF due to the complex political and economic circumstances of the country. Mrs. Chamorro's economic team has presented the outlines of an economic plan which we hope will provide a basis for discussions with the IMF soon after the April 25 political transition.

Clearing arrears to the IFIs will not nullify U.S. assistance. On the contrary, in each case a small contribution from the U.S. will leverage contributions from other countries and the IFIs themselves to open up substantial and vital new inflows for Panama and Nicaragua that would overwise be unavailable.

Question. Are our allies, who also have a stake in supporting democracy, going to provide assistance? Have we been in contact with them on this subject?

Answer. We have had preliminary discussions with a number of other nations regarding assistance for Panama and Nicaragua and help with clearing arrears. Initial discussions with the Japanese have given us optimism that they will come forward with substantial assistance programs for the two countries. In addition, we expect Korea, Taiwan, and the European nations to provide assistance. The Nicaraguan government has been receiving assistance from, among others, Italy, Spain and the Nordic countries, and we expect these flows to continue under the new government. Italy has agreed to host a donor's conference for Nicaragua in late May or early June, at which time the Chamorro Government will present its economic program and seek commitments of emergency assistance. We expect that the issue of clearing Nicaragua's arrears to the World Bank and IDB to be raised in this forum and that the amounts needed to clear arrears will be added to the requirements for financial support.

INTERNATIONAL INSTITUTIONS AND DEBT

SENATOR DECONCINI: Can you tell me Mr. Secretary why a new international Bank is being established as opposed to, for example, a separate lending window for the Eastern European countries in the World Bank? How will this new Bank coordinate its activities with the World Bank and IMF?

SECRETARY ROBSON: The European Community countries, however, wanted to create a separate regional institution so that the Eastern European countries would not have to compete with other borrowers for funding and regional expertise and influence could be focused on the borrowing countries' problems. The Charter dictates, however, that the EBRD must coordinate and cooperate with the World Bank and IMF. All countries recognize that the international financial institutions must work together to complement and/or supplement one another. Without such coordination and cooperation, programs in one institution may undermine programs in another. None of the member countries want this result.

SENATOR DECONCINI: One question which comes up is whether the Soviet Union will participate in the Bank as a contributor and a borrower. Can you tell me the U.S. position on this question and where this issue stands in our negotiations with the Europeans?

SECRETARY ROBSON: The European Community countries have insisted that the Soviet Union be a member of the EBRD and be eligible to borrow. However, we were successful in pressing to have Soviet access to EBRD funding restricted for a three-year period to the amount of paid-in capital they contribute. Lending to the Soviet Union will be confined to the private sector or to help enterprises operating competitively and moving to a market orientation. Any change in Soviet Union's borrowing status at the end of the three-year period will require the agreement of 75 percent of the members representing at least 85 percent of the voting power.

SENATOR DECONCINI: Do you believe that the West should provide subsidized loans to the Soviet Union at the present time? What safeguards do we have to ensure that the West stops subsidized lending to the Soviet Union if our relations deteriorate again in the future?

SECRETARY ROBSON: The Soviet Union will only be allowed to borrow the amount of paid-in capital they, themselves contribute. Therefore, at a minimum, they will not be receiving loans which exceeds their own paid-in capital for the first three years of the Bank's operations. Under the Charter of the EBRD, the Board of Directors may recommend to Governors that access to Bank resources be suspended or modified where borrowing member countries are implementing policies inconsistent with the purposes of the Bank.

SENATOR DECONCINI: I believe very strongly that the West should aid Eastern Europe in its transformation to a free market economy and to a multi-party democracy. At the same time, back sliding on the part of any country should mean that it is no longer eligible for Western assistance. Is there going to be a way to review the eligibility of countries receiving loans from the Bank?

SECRETARY ROBSON: Yes. The Charter of the Bank does provide a mechanism to review the eligibility of countries for EBRD loans consistent with the purposes of the Bank and to limit lending where countries are not meeting these criteria. Under the Charter, the basic purposes of the Bank are to foster the transition to open market-oriented economies; promote private and entrepreneurial initiative; and support countries applying the principles of multi-party democracy, pluralism, and market economics.

SENATOR DECONCINI: Mr. Secretary what percentage of the votes will we have in the Bank compared to the Europeans? If the European Community members have a majority of the votes, as I have heard that they will, how much influence will the U.S. have over the Bank's loans and policies?

SECRETARY ROBSON: Under the proposed Charter of the bank, the European Community countries would always have a majority of the capital stock of the institution. The United States would have 10 percent of the shares and vote. Given that the U.S. will be the single largest shareholder in the EBRD, we believe that we will have a fair amount of influence especially on staffing, procurement, loans and general policies. As you know, we have been very influential in the negotiations of the Charter of the Bank.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

HELP FROM OTHER COUNTRIES

SENATOR KASTEN: Do we have any firm commitments from other countries that they will join the United States in providing assistance to Panama?

MR. EAGLEBURGER: We have approached a number of countries about Panama's need for assistance and have told them of our intention to organize an international Support Group, but we have not yet pressed for firm commitments. We will do so at the appropriate time -- that is, after we have defined our own level of assistance and, thereby, established confidence in our leadership and in the success of the Support Group. Several countries have expressed a willingness to be helpful. We are confident that they and other countries will provide significant support once Panama reaches an understanding with the IMF.

NICARAGUA: HELP FROM OTHER COUNTRIES

SENATOR KASTEN: Do we have any firm commitments from other countries that they will join the United States in providing assistance to Nicaragua?

DEPUTY SECRETARY EAGLEBURGER: The bilateral donor community has reacted very positively to the results of Nicaragua's election and to the political and economic change now in store for that country. A number of countries have provided preliminary indications of aid levels; initial information shows that the European Community, the U.K., both Germanies, Spain, Italy, Denmark, Norway, Sweden, Austria, Switzerland, Canada and Japan are planning to provide a total of approximately $334 million over the next year or so.

The Italian government is planning to host an international donor pledging conference for Nicaragua May 31-June 1. The U.S. will attend this conference, at which time we will likely have a clearer idea of total aid levels.

THE BANKS AND DRUG MONEY

SENATOR KASTEN: A major concern that a number of us have with respect to Panama is the past performance of the banking system with respect to the laundering of drug money. What has been done in this area to ensure that such practices won't continue in the future? Please be specific about what laws have been enacted.

MR. EAGLEBURGER: The Endara Government has taken important steps to prevent Panamanian banks from being used to launder drug proceeds.

On February 13, the Panamanian Cabinet issued Decree 41, which has the force of law. It gave the National Banking Commission strong enforcement powers and the responsibility to ensure, through inspections and examinations, that banks comply with the Decree, and it empowered the Commission to issue regulations requiring banks to verify their customers' identity and to obtain statements from them about currency and negotiable instrument transactions of more than $10,000. The Commission issued these regulations on March 19; they will take effect on May 1. By requiring the recording of cash transactions, the Government of Panama will discourage drug traffickers from using its banks to launder their illicit cash proceeds.

Panama has also applied its existing laws to obtain money laundering information and to provide it to U.S. law enforcement officials. Based on information provided by U.S. agencies, in December, the Government of Panama froze over two hundred bank accounts believed to have been used for laundering drug money. The Panamanian Attorney General is now in the process of providing the information Panama obtained about these accounts to U.S. law enforcement officials for use in U.S. investigations, and is working with U.S. prosecutors to certify the records so they may be admissible in U.S. courts.

In two recent decisions, the Panamanian Supreme Court has ruled that the Panamanian Attorney General has the authority, for law enforcement purposes, to compel banks to produce information about bank accounts, including coded bank accounts.

Finally, in late February, Panama requested the commencement of law enforcement discussions with the United States, in particular discussions regarding an exchange of information agreement. At Panamanian invitation, we began discussions on a range of law enforcement agreements, including an agreement to establish formal mechanisms for obtaining evidence, including bank records, for criminal investigations and prosecutions. These discussions are underway and both Governments are keeping them on a fast track.

TIMING OF THIS LEGISLATION

SENATOR KASTEN: Do you have any commitments from the House leadership to move this appropriations legislation in the very near future?

MR. EAGLEBURGER: The President urged passage of the Supplemental by April 5th. The House leadership has been very cooperative in helping us meet that goal.

SENATOR KASTEN: In view of your need to move quickly on this matter, I am puzzled about why you thought it was necessary to seek authorization inasmuch as the authorities of the Foreign Assistance Act are broad enough to cover both of these items, so only an appropriations bill is necessary. Why are you seeking authorization in view of that fact. Wouldn't that tend to slow things down?

MR. EAGLEBURGER: At the President's request, the House Foreign Affairs and Senate Foreign Relations Committees earlier this year acted expeditiously to mark up, report, and gain passage of the Emergency Aid to Panama Act. The Senate Foreign Relations Committee again demonstrated its responsiveness to the President's request for assistance for Panama, Nicaragua, and for refugee admissions, as it marked up and reported legislation to the full Senate on March 28. The Senate passed the bill on April 5.

REPATRIATION OF CONTRAS AND REFUGEES

SENATOR KASTEN: What is the status of U.S. and other efforts to get the Contras to lay down their arms and return to their homes in Nicaragua?

Mr. Eagleburger: The U.S., UNO, the Resistance, International Organizations, the Central American presidents, and other interested parties are working to facilitate the demobilization and repatriation of the Resistance. We believe that real headway has been made. ONUCA and CIAV are increasing their efforts to become operational. The Resistance and UNO have agreed on a framework for demobilization and the initial phase will begin in April 1990. The Sandinistas have also embraced the agreement between the Resistance and UNO, including the concept of transitional areas within Nicaragua. In addition, the economic legislation before the Congress will further facilitate Resistance demobilization. The Resistance, while wary of the Sandinistas and concerned about security upon return to Nicaragua, has begun to seriously engage in the demobilization process while publicly accepting disarmament and a return to civilian life in the near future.

QUESTIONS SUBMITTED BY SENATOR DON NICKLES

SUPPLEMENTAL APPROPRIATIONS

SENATOR NICKLES: On December 23, 1989, the President issued an executive order directing the Secretary of the Treasury to effect an "orderly unblocking" of Panamanian government assets being held in U.S. commercial banks. The Office of Foreign Assets Control has interpreted this order to allow only the Endara government access to these assets. Please explain why it has been U.S. government policy to prevent American creditors from attaching these assets to satisfy valid federal court judgments against the Panamanian government?

DEPUTY SECRETARY ROBSON: We anticipate that the Government of Panama will approach its creditors directly in order to satisfy judgments against it. In effecting the orderly unblocking of Panamanian assets in the United States, Treasury has deemed it appropriate to defer to the Government of Panama on matters involving the disposition of its funds and has brought this issue to the attention of the Government of Panama's representatives on numerous occasions. The process of putting Panama's fiscal house back in order in the aftermath of the corrupt Noriega regime and the invasion is necessarily time consuming. We will continue to urge the Government of Panama to resolve this issue as soon as possible.

SENATOR NICKLES: Do you have an estimate of how much money is currently owed by the Panamanian government to U.S. creditors?

DEPUTY SECRETARY ROBSON: We do not have complete or comprehensive information concerning the amount or validity of claims by U.S. persons against the Panamanian government or Panamanian government-related entities, but we are aware of 12 claims amounting to $3,749,438.78. Some of these claims may be disputed by the Panamanian government, however. The Panamanians have engaged counsel to advise them on this matter. Counsel is actively pursuing resolution of the claims.

Senator Nickles: In July 1989, the General Accounting Office reviewed loan disbursements by the Inter-American Development Bank (IDB) to Nicaragua in November 1987. As part of that review the GAO recommended that the Secretary of the Treasury determine whether funds disbursed by IDB to Nicaragua in November 1987 have actually been used for valid loan purposes. Were these funds used for valid loan purposes, and if not has the IDB taken steps to recover the funds from Nicaragua?

Section 103 (d) of the International Development and Finance Act of 1989 provides that no funds may be released to the Inter-American Development Bank until the Secretary of the Treasury certifies to Congress that (1) the GAO has been provided access to the IDB Auditor General's report concerning loan transactions with Nicaragua (2) the GAO will have full access to all the records available to the U.S. Executive Director to the Bank, and (3) the Bank has implemented loan service procedures which are deemed adequate by the Bank's Auditor General. What actions has the Department of Treasury taken to respond to this requirement?

Secretary Robson: The Nicaragua roundtripping incident in 1987 made apparent lax policies and procedures followed by the IDB. To his credit, the then newly elected President, moved quickly to revise those practices. The Bank now has in place policies and procedures so roundtripping transactions cannot occur again.

At Senator Helm's request the GAO looked into the Nicaragua incident. The GAO recommended that we determine: if the IDB's Auditor General is satisfied with the new procedures for dealing with countries in arrears; and if the funds disbursed as advances were used for loan purposes.

Our Executive Director has discussed the revised procedures with the Auditor General on a number of occasions. The Auditor General confirms that the revised procedures satisfy his recommendations. The Auditor General is investigating the use of the advances and will report to us shortly.

As far as Section 103 (d) of the International Development and Finance Act of 1989 is concerned, we will be working with the GAO and the IDB on complying with the requirements of the section.

CONCLUSION OF HEARING

Senator **Leahy**. The subcommittee will stand in recess until 10 p.m., on Thursday, March 22. At that time we will receive testimony from Hon. Nicholas Brady, Secretary of the Treasury, on the World Bank and the debt crisis.

[Whereupon, at 1:19 p.m., Tuesday, March 20, the hearing was concluded, and the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 22.]

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